(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 and Systems)

## MANAGEMENT DISCUSSION AND ANALYSIS

### (i) Business Scope and Analysis of Operations

**1. Scope of business**

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

**2. Analysis of operating results**

(1) Operation review

The year 2006 marked a start under the 11th Five-Year Plan of the Company, in which the Company faced new opportunities and challenges. During the Year, policies for adjustment of and fixing the prices of medicine were introduced. Anti-corruption measures were implemented in order to curb the briberies, regulating and restoring order in the pharmaceutical market. Coupled with the stricter supervision of the domestic pharmaceutical industry, there were dramatic changes in the operational environment of the domestic pharmaceutical manufacturing industry and the distribution industry.

Amid the adverse factors of increasingly fierce domestic competition in 2006, the Company sticked to the idea of "realization of rapid growth in both sales and scale through technological innovation with marketing innovation ". The Group took a series of effective measures to promote innovative technology, explore the market, integrate internal resources, effectively use the capital, and enhance fundamental internal management system, resulting in positive prospects for the Group's operations.

According to PRC Accounting Standards and Systems, the Group recorded turnover of RMB10,241,004,000 for 2006, up 13.46% as compared with 2005. The profit before tax amounted to RMB370,362,000, representing an increase of 20.74% over 2005 and net profit amounted to RMB 227,328,000, representing an increase of 23.23% over 2005. According to HKFRS, the Group recorded turnover of RMB10,241,004,000 for the Year, up 13.46% as compared with 2005. Profit before income tax amounted to RMB349,155,000, representing an increase of 10.67% over 2005 and profit attributable to equity holders of the Company amounted to RMB218,067,000, representing an increase of 10.24% over 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (i) Business Scope and Analysis of Operations *(continued)*

**2. Analysis of operating results** *(continued)*

(1) Operation review *(continued)*

A breakdown of the operational results of the overall and principal operations of the Group for 2006 is set out as follows:

*Prepared in accordance with PRC Accounting Standards and System*

| Items | 2006 *(RMB'000)* | 2005 *(RMB'000)* | Growth *(YoY)(%)* |
|---|---|---|---|
| **Turnover** | **10,241,004** | 9,026,340 | 13.46 |
| Include: Manufacturing | **2,412,184** | 2,141,675 | 12.63 |
| Trading | **7,828,820** | 6,884,665 | 13.71 |
| **Profit before tax** | **370,362** | 306,741 | 20.74 |
| Include: Manufacturing | **278,466** | 231,705 | 20.18 |
| Trading | **91,896** | 75,036 | 22.47 |
| **Net profit** | **227,328** | 184,482 | 23.23 |
| Include: Manufacturing | **177,015** | 135,534 | 30.61 |
| Trading | **50,313** | 48,948 | 2.79 |

*Prepared in accordance with HKFRS*

| Items | 2006 *(RMB'000)* | 2005 *(RMB'000)* | Growth *(YoY)(%)* |
|---|---|---|---|
| **Turnover** | **10,241,004** | 9,026,340 | 13.46 |
| Include: Manufacturing | **2,412,184** | 2,141,675 | 12.63 |
| Trading | **7,828,820** | 6,884,665 | 13.71 |
| **Profit before income tax** | **349,155** | 315,493 | 10.67 |
| Include: Manufacturing | **260,772** | 245,829 | 6.08 |
| Trading | **88,383** | 69,664 | 26.87 |
| **Profit attributable to equity holders of the Company** | **218,067** | 197,804 | 10.24 |
| Include: Manufacturing | **174,538** | 152,088 | 14.76 |
| Trading | **43,529** | 45,716 | (4.78) |

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (i) Business Scope and Analysis of Operations *(continued)*

#### 2. Analysis of operating results *(continued)*

(1) Operation review *(continued)*

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

| | **Turnover** | | **Profit from principal activities** | |
|---|---|---|---|---|
| | **Under PRC Accounting Standards and Systems** *(RMB'000)* | **Under HKFRS** *(RMB'000)* | **Under PRC Accounting Standards and Systems** *(RMB'000)* | **Under** HKFRS *(RMB'000)* |
| Principal activities: | | | | |
| Manufacturing and sales | 2,412,184 | 2,412,184 | 1,239,694 | 1,258,638 |
| Trading | | | | |
| Including: | | | | |
| Wholesale | 7,267,373 | 7,267,373 | 416,290 | 421,638 |
| Retail | 335,872 | 335,872 | 71,668 | 72,689 |
| Import and export | 225,575 | 225,575 | 15,533 | 15,811 |
| Sub-total | 7,828,820 | 7,828,820 | 503,491 | 510,138 |
| Total | 10,241,004 | 10,241,004 | 1,743,185 | 1,768,776 |

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

| | **Manufacturing** | | **Trading** | | | |
|---|---|---|---|---|---|---|
| **Region** | **Turnover** *(RMB'000)* | **Percentage of the manufacturing turnover** *(%)* | **Turnover** *(RMB'000)* | **Percentage of the trading turnover** *(%)* | **Consolidated** *(RMB'000)* | **Percentage of the total turnover** *(%)* |
| Southern China | 1,575,392 | 65.31 | 6,700,572 | 85.59 | 8,275,964 | 80.81 |
| Eastern China | 322,887 | 13.39 | 446,034 | 5.70 | 768,921 | 7.51 |
| Northern China | 168,023 | 6.97 | 169,556 | 2.17 | 337,579 | 3.30 |
| North-Eastern China | 131,533 | 5.45 | 86,130 | 1.10 | 217,663 | 2.13 |
| South-Western China | 143,645 | 5.95 | 249,521 | 3.19 | 393,166 | 3.84 |
| North-Western China | 69,294 | 2.87 | 72,739 | 0.93 | 142,033 | 1.39 |
| Exports | 1,409 | 0.06 | 104,269 | 1.32 | 105,678 | 1.02 |
| Total | 2,412,183 | 100.00 | 7,828,821 | 100.00 | 10,241,004 | 100.00 |

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (i) Business Scope and Analysis of Operations *(continued)*

#### 2. Analysis of operating results *(continued)*

(1) Operation review *(continued)*

During the Reporting Period, a number of measures were taken to enhance the Manufacturing Operations of the Group in the following areas: (1) Resources were devoted to promote the image of both the brands and products through various means and channels. It also made earnest efforts to improve the distribution network and to further explore the three major end markets, namely hospitals, retail vendors, and communities and rural markets. During the Year, the Group successfully held product exhibitions and customers' parties in various cities such as Qingdao, Nanjing and Tangshan. In addition, the Group actively launched a football promotion campaign and made good use of the GPHL's Annual Technology Innovation and Medicine Safety Forum (廣藥集團年度科技創新暨用藥安全高峰論壇) and the awards of "China Time-honored Brand" (「百年中華老字號」) to its numerous brands, including Wang Lao Ji, Jing Xiu Tang, Pan Gao Shou and Cai Zhi Lin, to enhance the Group's image and reputation as the largest Chinese Patent Medicine producer with many "China Time-honored Brands" and facilitate the development of it's core business. (2) The Group strengthened strategic cooperation with major distributors throughout China and through other effective distribution management measures to increase the market prices of products in a steady and gradual manner, striving to explore market for core products such as diabetes curing medicine, cerebrovascular medicine, heat clearing and anti-toxic medicine, cough and phlegm clearing medicine; (3) More resources were allocated by the Group on research and development as well as mass production of new products. During the Year, production approval for Kun Xian Capsule (formerly known as "Feng Shi Ping Capsule") was granted. The initial preparation work for marketing activities is currently in progress. Clinical research on rabies bacterin was completed and application for the production approval is also under way. (4) The internal control was further strengthened down to the base-level. On the financial aspect, better controls over budget, funding and receivables were implemented; on the operations aspect, higher standards were set to minimize operations risks.

In 2006, there were 36 products whose sales income exceeded RMB10 million, of which annual sales income exceeding RMB100 million included Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xia Sang Ju Ke Li and the series of Wang Lao Ji Guangdong Liang Cha, the annual sales income of 4 products ranged from RMB30 million to RMB100 million and the annual sales income of 18 products ranged from RMB10 million to RMB30 million. The sales income for the Year of certain key products such as Wang Lao Ji Qing Liang Cha, Zhui Feng Tou Gu Wan, Mi Lian Chuan Bei Pi Pa Gao, Hua Zhi Shuan, Xia Sang Ju Ke Li, Guangdong Liang Cha Ke Li and Xiao Er Qi Xing Cha increased significantly by 133.20%, 43.21%, 35.98%, 75.66%, 17.64%, 24.14% and 53.72% respectively as compared with the previous year.

During the Reporting Period, sales of heat clearing and anti-toxic medicine, cough and phlegm clearing medicine, diabetes curing medicine and arthritis curing medicine for the Manufacturing Operations increased by 26.41%, 6.08%, 9.22% and 16.49% as compared with the previous year respectively, while sales of gastric medicine decreased by 19.58% as compared with the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (i) Business Scope and Analysis of Operations *(continued)*

#### 2. Analysis of operating results *(continued)*

(1) Operation review *(continued)*

Analysis of sales of major products for the Manufacturing Operations in 2006 is as follows:

| **Products** | **Sales income** *(RMB'000)* | **Gross profit** *(RMB'000)* |
|---|---|---|
| Heat clearing and anti-toxic | 627,938 | 302,934 |
| Including: herb tea series | 180,672 | 76,381 |
| Diabetes curing | 444,000 | 303,918 |
| Cough and phlegm clearing | 269,633 | 154,243 |
| Arthritis curing | 284,232 | 167,592 |
| Gastric | 79,751 | 37,320 |
| Other products | 706,629 | 292,630 |

*Notes:*

*(1) Herb tea series includes Wang Lao Ji herb tea and Xing Qun Xia Sang Ju drinks.*

*(2) In the above chart, the sales of the products of Wang Lao Ji were calculated by the percentage of shareholding in Wang Lao Ji by the Company, namely 48.0465%.*

During the Year, the Group continued to accelerate the construction of technology platforms and to strengthen the research and development of new products. In 2006, products such as Kun Xian Capsule and Nateglinide Tablet obtained production approvals on new medicine and three products obtained the approvals on clinical research.

During the Reporting Period, the Group took the following measures in the Trading Operations of the Group: (1) In response to the changing State policy and market situation, the Group adjusted its operating strategy of the Trading Operations. While the existing products sold by the Group in the capacity of agent would continue, exploration of new products with market potential as well as expansion of distribution networks and markets beyond the province were actively pursued; (2) The Group enhanced the communication and cooperation with its suppliers to help them further expand the sales. In the meantime, while we continued our efforts in the sales of key products from large joint venture importers, we spent great efforts to look for and promote domestic non-patent protected medicines in a bid to ensure continuous growth of sales; (3) Measures were taken to improve credit control and receivable monitoring mechanism to minimize operations risks; (4) The Group continued to adjust to optimize its retail business. Diversification of products and expansion of product types would continue. New operating modes would be explored so as to enhance the market power of the Group and its products.

As of 31 December 2006, the Group had 142 retail chain pharmacies, including 86 "Cai Zhi Lin" which specialize in traditional Chinese medicines and 55 "Jian Min" which specialize in chemical medicines as well as one pharmacy named Ying Bang.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (i) Business Scope and Analysis of Operations *(continued)*

#### 3. Details of operation and results of the Company's subordinated enterprises

| Name | Major products and business nature | Percentage of direct holding of shares by the Company (%) | Sales income for the Year (RMB'000) | Profit for the Year (RMB'000) | Net profit for the Year (RMB'000) | Total assets as at the end of the Year (RMB'000) | Net assets as at the end of the Year (RMB'000) |
|---|---|---|---|---|---|---|---|
| Xing Qun Pharmaceutical | Manufacturing of CPM such as Xia Sang Ju | 88.99 | 328,257 | 42,002 | 28,594 | 307,894 | 225,461 |
| Zhong Yi Pharmaceutical | Manufacturing of CPM such as Xiao Ke Wan | 100.00 | 651,876 | 124,770 | 84,205 | 490,958 | 419,268 |
| Chen Li Ji | Manufacturing of CPM such as Wu Ji Bai Feng Wan | 100.00 | 176,603 | 20,340 | 12,523 | 260,015 | 220,694 |
| Guangzhou Qi Xing Pharmaceutical Co., Ltd | Manufacturing of CPM such as Hua Tuo Zai Zhao Wan | 75.00 | 356,530 | 54,266 | 40,295 | 288,682 | 153,041 |
| Jing Xiu Tang | Manufacturing of CPM such as Qing Re Xiao Yan Ning | 88.40 | 207,295 | 17,295 | 17,295 | 171,274 | 123,097 |
| Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd ("Pan Gao Shou") | Manufacturing of CPM such as Mi Lian Chuan Bei Pi Pa Gao | 87.77 | 271,620 | 22,531 | 16,800 | 283,124 | 194,547 |
| Wang Lao Ji | Manufacturing of CPM such as Bao Ji Wan | 48.0465 | 661,945 | 73,107 | 73,107 | 433,242 | 374,912 |
| Guangzhou Huan Ye | Manufacturing of phytochemical medicine | 100.00 | 34,794 | 163 | 57 | 43,884 | 24,199 |
| Guangxi Ying Kang | Manufacturing of CPM such as Hua Tuo Feng Tong Bao | 51.00 | 24,322 | 321 | 321 | 45,981 | 32,277 |
| Guangzhou Bai Di | Research and development and manufacturing of bio-tech medicine | 95.69 | 133 | (12,779) | (12,779) | 91,232 | 47,595 |
| Guangzhou Han Fang | Research and development and manufacturing of CPM | 70.04 | 6,539 | (23,762) | (23,762) | 170,822 | 73,609 |
| Pharmaceuticals Corporation | Sales of chemical pharmaceutical products and medical apparatus | 90.09 | 7,384,448 | 100,020 | 61,102 | 2,481,637 | 469,257 |
| Chinese Medicine Corporation | Sales of Chinese raw medicine and CPM | 100.00 | 1,093,020 | (808) | (857) | 440,693 | 19,265 |
| Guangzhou Pharmaceutical Import & Export Corporation ("Pharmaceutical Import & Export Corporation") | Import and export of TCM and chemical medicine | 100.00 | 321,042 | 3,462 | 1,841 | 110,766 | 23,892 |
| Ying Bang Company | Sales of Chinese raw medicine, CPM and materials | 51.00 | 29,206 | (560) | (621) | 8,465 | 7,036 |

*Note: The operating results and assets of Wang Lao Ji as stated in the above chart were stated according to the respective figures of the whole Company.*

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

#### 4. Major customers and suppliers

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB1,234,951,000, representing approximately 14.33% of the total purchases. The purchases from the largest supplier amounted to RMB313,092,000, representing 3.63% of the total purchases. Goods and services sold to the 5 largest customers amounted to RMB798,426,000, representing7.80% of the total sales. Sales to the largest customer amounted to RMB257,472,000, representing 2.51% 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) The possible changes of accounting policies and accounting estimates of the Group after carrying out new Accounting Standards for Enterprises and their effects to financial conditions and operating results of the Group

From 1 January 2007, the Group applies new Accounting Standards for Business Enterprises. A detailed analysis of its effect on the accounting policies, accounting estimates and the financial position and results from operations of the Group are set out as follows:

1. Scope of consolidated financial statements: the interests in joint ventures are no longer proportionally consolidated. Instead, equity method is used for consolidation. In 2006 and previous years, proportional consolidation method was used for consolidating financial statements of joint ventures such as Wang Lao Ji based on the shareholding attributable to the Group. In accordance with "Accounting Standards for Business Enterprise No. 33 — Consolidated Financial Statements" and "Accounting Standards for Business Enterprises No.2 — Long-term Equity Investment", equity method will be used for long-term investments in joint ventures and such investments will no longer be consolidated since the year 2007. The change of this accounting policy will affect the results from operations of the Group recorded in the consolidated financial statements, meaning that the profit of the owners of the Company will be affected. For example, for the 2006 consolidated financial statements of the Group, in accordance with the new accounting principles, the total assets recorded in the consolidated balance sheet would be decreased by approximately 0.52% when compared with the original balance sheet. The principal operations income and the relevant costs in the consolidated income statement would be decreased by 1.29% and 1.56%correspondingly while the net profit would be increased by 0.51%.

2. As of 31 December 2006, the Group separately assessed the value of its investment properties in accordance with the "Accounting Standards for Business Enterprises No. 3 — Investment Property" and adopted the cost method for the additional supplementary calculation with the absence of retrospective adjusted items.

3. The financial statements of the Group on the first adoption date involves such modified accounting policies with retrospective effect as "Accounting Standards for Business Enterprises No. 2 — Long-term Equity Investment", "Accounting Standards for Business Enterprises No. 13 — Contingent Events", "Accounting Standards for Business Enterprises No. 18 — Income Tax", "Accounting Standards for Business Enterprises No. 20 — Business Combination".

   (1) Take the 2006 income statements as an example, the effect on the results from operation resulting from such changes of accounting principles would be reflected by an increase of RMB6,243,000 in consolidated net profit in 2006, representing a net increase of 2.75% in profit when compared with the original income statement. Among which, an increase in the deferred income tax assets would result in a decrease of RMB1,059,000 in net profit. Such changes of accounting policies would not significantly affect the results from operations of the Group.

   (2) The retrospective adjustment to relevant transactions and matters resulting from the changes of accounting policies will result in an increase of RMB2,276,000 in the shareholders' funds in the Company, representing approximately 0.08% of net assets as at 31 December 2006. Among which, an increase in the deferred income tax assets will result in an increase of RMB60,644,000 in the retained profit. An increase in the estimated liabilities of employee benefits in medical insurance will result in a decrease in the retained profit by RMB55,071,000. Because of the effects of the new standards (which change the scope of consolidation), the retained profit declined by RMB 100,000. The debit balance of long-term equity investments will result in a decrease in the retained profit by RMB2,285,000. The written off of the remaining value of the goodwill will result in a decrease of RMB912,000 in the retained profit. The retrospective adjustment to such accounting policies will not significantly affect the shareholder's funds of the Gruop.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (II) The possible changes of accounting policies and accounting estimates of the Group after carrying out new Accounting Standards for Enterprises and their effects to financial conditions and operating results of the Group *(continued)*

4. The accounting estimates adopted by the Group include depreciable life of fixed assets, depreciable life of investment properties, amortization period of land use right of the intangible assets. The adoption of new "Accounting Standards for Business Enterprises" will not result in a change of such accounting estimates.

In conclusion, the adoption of the new "Accounting Standards for Business Enterprises" mainly affects the consolidated scope of the consolidated financial statements of the Group. Accounting estimates, the financial position and results from operations of the Group will not be significantly affected.

### (iii) The Company's Investments

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

The Company issued 78,000,000 A shares at the issue price of RMB9.80 per share in the PRC on 10 January 2001. The net proceeds raised from the issue of A shares were RMB737,990,000. The portion exceeding the budgeted proceeds amounting to approximately RMB29,690,000 was used as supplemental working capital. As at 31 December 2006, an aggregate of RMB695,540,000 of the proceeds from the issue of A shares were utilised. The remaining unused proceeds amounting to RMB42,450,000 are currently used as working capital. As at the end of the Reporting Period, the use of proceeds from the issue of A shares was in line with the undertakings made in the prospectus for the issue of A shares. Save as the following items, proceeds were invested as scheduled.

| Category | Projects | Budgeted injection from the proceeds *(RMB'000)* | Accumulated amount injected as at the end of the Reporting Period *(RMB'000)* | Stage of completion *(%)* |
|---|---|---|---|---|
| Pills | Industrialization of Wei Re Qing | 29,000 | 25,960 | 93 |
| | Technology upgrade of throat, spleen and intestine pills | 29,100 | 25,830 | 95 |
| Tablets | Industrilisation of Fu Yan Solutable Tablets | 29,500 | 24,060 | 90 |
| Expansion of chain pharmacies | Cai Zhi Lin | 59,500 | 29,260 | 70 |

**(1) Explanatory note on return on projects and delay in completion of certain projects**

During the Reporting Period, additional sales and gross profit from the issue of A Shares amounted to RMB 4,267,410,000 and RMB 604,620,000 respectively.

Among these, projects such as Fu Yan Solutable Tablets and Wei Re Qing Capsules were postponed because of market changes, and the expansion of chain pharmacies had slowed down as a result of keen competition in the domestic pharmaceutical market.

**(2) As of 31 December 2006, there was no change in the actual application of the proceeds of the issue of A shares.**

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (iii) The Company's Investments *(continued)*

2. Other investment projects during the Reporting Period

| Content | Date | Amount | Stage |
|---|---|---|---|
| Guangzhou Bai Di, a subsidiary of the Company, cancelled the Agreement in relation to Capital Contribution for Establishment of Guangzhou Huayin Bio-tech Co., Ltd (廣州華因生物技術有限公司), and withdrew its original investment RMB 1 million, and relevant dissolution and liquidation were completed in accordance with the revelant procedures. | 27 January 2006 | RMB1,000,000 | Completed |
| Guangzhou Bai Di, a subsidiary of the Company, and Guangzhou Jiahe Bio-tech Co., Ltd (廣州市嘉合生物技術有限公司) jointly set up Guangzhou Nuocheng Bio-technology Co., Ltd.(廣州諾誠生物製品股份有限公司) | 27 January 2006 | RMB6,000,000 | Completed |
| Guangzhou Bai Di, a subsidiary of the Company, increased investment and shares in Guangzhou Nuocheng Bio-technology Co., Ltd | 26 September 2006 | RMB10,000,000 | Completed |

### (iv) Analysis of Financial Conditions

1. Financial conditions of the Group

***Prepared in accordance with PRC accounting standards and systems***

| **Items** | **As at 31 December 2006 *(RMB'000)*** | As at 31 December 2005 *(RMB'000)* | Change *(%)* |
|---|---|---|---|
| Total assets | **5,409,413** | 5,098,095 | 6.11 |
| Shareholders' funds | **2,788,088** | 2,621,437 | 6.36 |
| Profit from principal activities | **1,743,185** | 1,528,752 | 14.03 |
| Net profit | **227,328** | 184,482 | 23.23 |
| Net increase/(decrease) in cash and cash equivalents | **(127,855)** | (263,842) | 51.54 |

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (iv) Analysis of Financial Conditions *(continued)*

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

***Prepared in accordance with HKFRS***

| **Items** | **As at 31 December 2006** ***(RMB'000)*** | As at 31 December 2005 *(RMB'000)* | Change *(%)* |
|---|---|---|---|
| Total assets | **5,640,964** | 5,316,420 | 6.10 |
| Capital and reserves attributable to equity holders of the Company | **2,897,389** | 2,723,123 | 6.40 |
| Profit before income tax | **349,155** | 315,493 | 10.67 |
| Profit attributable to equity holders of the Company | **218,067** | 197,804 | 10.24 |
| Net increase/(decrease) in cash and cash equivalents | **(129,453)** | (263,804) | 50.93 |

2. Liquidity

As at 31 December 2006, the current ratio of the Group was 1.60 (31 December 2005: 1.55), and its quick ratio was 1.04 (31 December 2005: 0.98). Accounts receivable turnover rate was 10.35 times, representing a decrease of 5.59% as compared with that of 2005. Inventory turnover rate was 6.85 times, representing an increase of 1.99% as compared with last year.

3. Financial resources

As at 31 December 2006, cash and cash equivalents of the Group amounted to RMB489,128,000, out of which 95.97% and 4.03% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2006, the Group had bank borrowings of RMB888,199,000 in total, all of which were short-term borrowings (31 December 2005: RMB867,785,000).

4. Capital structure

As at 31 December 2006, the Group's current liabilities amounted to RMB2,384,082,000 (31 December 2005: RMB2,236,332,000), representing an increase of 6.61% over that of 2005, and its long-term liabilities was RMB71,154,000 (31 December 2005: RMB54,826,000), with an increase of 29.78% as compared with 2005. The shareholders' funds amounted to RMB2,788,088,000 (31 December 2005: RMB2,621,437,000), with an increase of 6.36% as compared with 2005.

5. Capital expenditure

The Group expects the capital expenditure for 2007 to amount to approximately RMB227 million (2006: RMB102 million), which will be mainly applied in the construction of factories and infrastructure and acquisition of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

6. Gearing ratio

As at 31 December 2006, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 45.39% (31 December 2005: 44.94%), with an increase of 0.45 percentage point as compared with the year 2005.

## 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 Renminbin, the Group does not have significant risks in exposure to fluctuations in exchange rates.

8. Main cash resources and applications

   As of 31 December 2006, cash and cash equivalents of the Group amounted to RMB489,128,000, with a decrease of RMB127,855,000 as compared with last year. The net cash inflow delivered from operating activities amounted to RMB38,880,000, with a decrease of RMB107,442,000 as compared with last year, which was mainly attributable to the increase of accounts receivable, notes receivable and inventory for the Year.

9. Contingent liabilities

   As of 31 December 2006, the Group has no significant contingent liabilities.

10. Charge on the Group's assets

   At 31 December 2006, the Group's bank loans were secured by fixed assets with a net book value of RMB54,970,000.

### (v) Impact caused by the changes in operation environment and national macro economic policy on the Group

Factors such as the changes of the national policy regarding the prices of pharmaceutical products, the increased prices of raw materials and ancillary materials, the increased production cost resulting from GMP renovation of the Group's Manufacturing Operations and lower gross profit margin of the Trading Operations have caused certain impact on the Group's operating results.

### (vi) The annual financial reports of the Group and the Company for the year of 2006 have been audited and signed by Guangdong Yangcheng Certified Public Accountants Co., Ltd, the PRC auditors, and PricewaterhouseCoopers, the international auditors, who have both issued unqualified auditors' reports thereon.

### (vii) Prospects and Plans for 2007

In 2007, the Group will focus on strengthening management in the base-level, continue the brand-oriented strategy, and further consolidate its resources. Efforts will be spent on exploring new products with market potential and new markets so as to increase the core competitiveness of the Group, and thus achieve sustainable and stable growth.

The plans for 2007 mainly include:

1. To expedite technology innovation by increasing research and development of products including modern Chinese medicines, phytochemical extracts and biological vaccines and to aggressively facilitate the industrialization of technological achievements so as to enhance the Group's competitive edge.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### (vii) Prospects and Plans for 2007 *(continued)*

2. To continue to strengthen the promotion efforts of the Group's corporate brands and product brands with focus on the core products such as Zhong Yi Xiao Ke Wan, Wang Lao Ji Liang Cha, Xing Qun Xia Sang Ju, Qi Xing Hua Tuo Zai Zao Wan and Pan Gao Shou Chuan Bei Pi Pa Series, while promoting new products such as Kun Xian Capsule, Ganoderma Lucidum Spore Oil and rabies vaccines, with a view to create certain new growth drivers.

3. To continue to expedite integration of internal resources within the Group and to centralize the purchase raw materials in large bulks, packing materials and import materials, as well as to strengthen the co-operation between its manufacturing and trading enterprises within the Group and financial management and the Group's effectiveness.

4. To aggressively seek opportunities for cooperation with outstanding pharmaceutical enterprises and research institutions at home and abroad, making use of their strength to facilitate the development of the Company's core business.

5. To continue to improve fundamental management capabilities through perfecting corporate governance system and setting up and improving internal control system and management procedures, promoting better internal communication as well as fine-tuning internal control and review system. Hence, operating risks can be lower and the Group's operations satisfied the required standards.

The Company will face both new opportunities and challenges in 2007. Both management and the staff will continue to exercise the spirit of industry, progress, pragmatics and innovation with all efforts so as to achieve a rapid, sustainable and healthy growth for the Group and thus generate a better return for our shareholders.

## DAILY OPERATIONS OF THE BOARD

### (i) Board Meetings

<table>
<tr><th>Meetings</th><th>Date of meeting</th><th>Resolutions</th><th>Newspapers on which the resolution was published</th><th>Publication dates of the resolutions</th></tr>
<tr><td>19th meeting of the Third Session</td><td>23 February 2006</td><td>/</td><td>Shanghai Securities, Hong Kong Economic Times and The Standard in Hong Kong</td><td>24 February 2006</td></tr>
<tr><td>20th meeting of the Third Session</td><td>27 April 2006</td><td>(1) Upon the authorization and acting on behalf of GPHL, agree to convene relevant A shareholders' meeting to review its proposed share reform plan; (2) Agree to solicit the votes of the A shareholders of circulating shares of the Company in respect of the share reform plan; (3) Upon the authorization and acting on behalf of GPHL, agree to prepare explanatory statement relating to the share reform and all other necessary documents, and assist in implementing other necessary procedures to support the share reform of the Company; (4) Authorize Xie Bin, the Director, to execute the relevant documents, and to do such things and acts and execute such documents which he considers necessary or expedient for the support of the share reform of the Company.</td><td>/</td><td>/</td></tr>
<tr><td>21st meeting of the Third Session</td><td>31 March 2006</td><td>/</td><td rowspan="4">Shanghai Securities, Hong Kong Economic Times and The Standard in Hong Kong</td><td>3 April 2006</td></tr>
<tr><td>22nd meeting of the Third Session</td><td>27 April 2006</td><td>/</td><td>28 April 2006</td></tr>
<tr><td>23rd meeting of the Third Session</td><td>15 June 2006</td><td>/</td><td>16 June 2006</td></tr>
<tr><td>24th meeting of the Third Session</td><td>26 July 2006</td><td>/</td><td>27 July 2006</td></tr>
</table>

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

### (i) Board Meetings *(continued)*

| Meetings | Dates | Resolutions | Newspapers on which the resolution was published for | Publication dates of the resolution |
|---|---|---|---|---|
| 25th meeting of the Third Session | 25 August 2006 | / | Shanghai Securities, Hong Kong Economic Times and The Standard | 28 August 2006 |
| 26th meeting of the Third Session | 26 October 2006 | / | | 27 October 2006 |
| 27th meeting of the Third Session | 13 December 2006 | The resolution on the remuneration of Independent Non-executive Directors and external supervisors for the year 2006 was considered and passed | / | / |
| 28th meeting of the Third Session | 13 December 2006 | The resolution on the authorization to execute the relevant documents in connection with the application for E-Submission System separate account to HKEX was proposed. | / | / |

### (ii) The progress of execution by the Directors in respect of the resolutions passed at general shareholders' meetings

**1. Distribution of 2005 final dividend**

Pursuant to the resolution passed at the 2005 AGM, a final dividend of RMB0.07 per share (including withholding tax for A shares) for 2005 had been paid to the Company's shareholders by July 2006. The registration date for the entitlement of holders of H shares to the final dividend was 16 May 2006, while the book closing date was 17 May 2006. The registration date for the entitlement of holders of A shares to the final dividend was 29 June 2006 and the book closing date was 30 June 2006.

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

The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with PRC Accounting Standards and Systems and the amount determined in accordance with HKFRS. The Board recommended a final dividend of RMB0.084 per share (including withholding tax for A shares) for the year ended 31 December 2006 (2005: RMB0.07). The proposed final dividend will be submitted to the forthcoming 2006 AGM for consideration and approval.

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

## OTHER MATTERS

### (i) Accounts

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement prepared in accordance with PRC Accounting Standards and Systems and HKFRS on page 56 and page 140, respectively.

The financial conditions of the Group as at 31 December 2006 are set out in the consolidated balance sheet prepared in accordance with PRC Accounting Standards and Systems and HKFRS on page 54 and page 138, respectively.

The cash flows of the Group for the year ended 31 December 2006 are set out in the consolidated cash flow statement prepared in accordance with PRC Accounting Standards and Systems and HKFRS on page 59 and page 142, respectively.

The cash flows of the Company for the year ended 31 December 2006 are set out in the cash flow statement prepared in accordance with PRC Accounting Standards and Systems on page 68.

### (ii) Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years prepared in accordance with HKFRS is set out on page 5.

A summary of the results and of the assets and liabilities of the Group for the last three financial years prepared in accordance with PRC Accounting Standards and Systems is set out on page 4.

### (iii) Reserves

Details of movements in the reserves of the Group during the year prepared in accordance with PRC Accounting Standards and Systems are set out on pages 107 to 108. Details of movements in the reserves of the Group during the year prepared in accordance with HKFRS are set out on pages 173 to 175.

### (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 and Systems. The distributable reserves of the Group as at 31 December 2006 amounted to RMB175,905,000, calculated in accordance with the PRC Accounting Standards and Systems and amounted to RMB219,869,000 calculated in accordance with HKFRS.

### (v) Fixed Assets

Details of the movements of fixed assets for the year are set out on pages 89 and pages 163 to 165 herein.

## OTHER MATTERS *(continued)*

### (vi) Continuing Connected Transactions

Pursuant to the regulations of CSRC, details of the connected transactions were set out on pages 118 to 127 herein.

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

| | **2006** **(RMB'000)** |
|---|---|
| Ultimate holding company | |
| License fee expense | **10,782** |
| Service fee expense | **939** |
| Welfare facilities fee expense | **274** |
| Rental expense | **2,944** |
| Fellow subsidiaries | |
| Sales of finished goods and raw materials | **196,786** |
| Purchase of finished goods and raw materials | **555,962** |
| Advertisement expenses | **19,144** |

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 governing such transactions stipulated in the Agreement in relation to the Sales and Purchase Connected Transactions (as amended) entered into between the Company and GPHL on 27 April 2005 and the Agreement in relation to the Advertisement Continuing Connected Transactions entered into between the Company and GPSC on 15 June 2006.

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

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

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

## OTHER MATTERS *(continued)*

### (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

Throughout the year, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules of HKEx.

### (ix) Audit Committee

The Audit Committee had reviewed the accounting principles, accounting standards and methods adopted by the Group, and had discussed with the management about the audit, internal controls and financial reporting. The Committee also reviewed the audited annual accounts of the Group and the Company for the year ended 31 December 2006.

### (x) Tax Exemption

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

### (XI) 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 on page 182, respectively.

### (XII) Staff Quarters

Pursuant to the Accommodation Service Agreement entered into between the Company and GPHL, GPHL agreed to sell the staff quarters to the employees of the Group at a preferential price. The Company shall pay to GPHL the staff quarters reform costs, which represent the difference between the preferential price and the cost net of accumulated depreciation paid by GPHL on construction or acquisition of such staff quarters. As at 31 December 2006, the total staff quarters reform costs, which are payable to GPHL, amounted to approximately RMB61,655,000 (31 December 2005: RMB61,655,000).

In addition, the Group has constructed or acquired certain staff quarters. As at 31 December 2006, the difference between the construction cost or acquisition cost and the revenue from disposal of the quarters totaled RMB42,437,000 (31 December 2005: RMB42,437,000).

Correspondingly, the above-mentioned staff quarters reform costs amounted to RMB104,092,000 as at 31 December 2006 (2005: RMB104,092,000). According to the Document Cai Qi [2000] No.29, the Notice on Accounting Treatment of Housing Reform Initiated in Enterprises, issued by the Ministry of Finance, the costs arising therefrom should be dealt with in retained earnings as at 1 January 2006 under the statutory accounts. Subject to the approval by the Board of Directors, any deficit balance resulting therefrom should be appropriated to the statutory public welfare fund, statutory surplus reserve fund, and capital reserve. This accounting treatment has been adopted in the financial statements prepared in accordance with the PRC Accounting Standards and Systems.

## OTHER MATTERS *(continued)*

### (XII) Staff Quarters *(continued)*

For the financial statements prepared in accordance with HKFRS, the staff quarters reform costs have been deferred and amortized on a straight-line basis to the profit and loss account over a period of 10 years, which is the estimated remaining average service life of the employees. The total accumulated amortization as at 31 December 2006 was approximately RMB77,086,000, and the amortization for 2006 was RMB10,361,000. As at 31 December 2006, the balance of such deferred staff quarters reform costs was RMB27,006,000. In the opinion of the Board of Directors of the Company, if the aforesaid balance of deferred staff quarter reform costs had been completely written off in 2006, the total assets of the Company as at 31 December 2006 would have been reduced by approximately RMB27,006,000. With respect to the document Sui Fu [2000] No. 18 issued by the Guangzhou People's Municipal Government concerning the one-time cash accommodation allowance to those employees to whom the Group has not allocated staff quarters and those aged employees whose allocated staff quarters do not meet required standards, the Directors consider that the said document is not legally binding on the Group. Since 2001, the Group has formulated its own cash accommodation allowance policy to employees based on the situation of the entities within the Group.

### (XIII) Projects under Development and for Sale

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

### (XIV) Bank Loans, Overdrafts and Other Loans

Details of the bank loans, overdrafts, and other liabilities of the Group as at 31 December 2006 are set out on pages 102 to 105. In comparison to last year, 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 2005.

### (XV) Auditors

Guangdong Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers were respectively re-appointed as domestic and international auditors of the Company for the year 2006, as approved at the 2005 AGM.

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

### (XVI) 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.

### (XVII) Explanation of Certified Public Accountants in respect of Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company

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

## OTHER MATTERS *(continued)*

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

In accordance with the requirements as set out in the Document Zheng Jian Fa [2003] No. 56, Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Connected Parties and the Provision of Guarantees by Listed Companies to External Parties issued by the CSRC and the State Asset Management Commission under the State Council, a statement on the application of funds by the Company's controlling shareholders and other connected parties for the year ended 31 December 2006 has been prepared and is set out below:

| Name of the party who used the Funds | The relationship between the party and the listed company | The account item for the amount will be included | The fund appropriated at the beginning of 2006 *(RMB'000)* | Accumulated amount appropriated in 2006 *(RMB'000)* | Accumulated amount repaid in 2006 *(RMB'000)* | Fund appropriated as at the end of 2006 *(RMB'000)* | Reasons | Nature |
|---|---|---|---|---|---|---|---|---|
| GPHL | Parent Company | Other receivables | 5,060 | 86 | 1,075 | 4,071 | Prepaid rentals and daily transactions | Operational |
| Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd | With the same ultimate holding company | Account receivables | 26,468 | 69,600 | 61,301 | 34,767 | Payment for goods | Operational |
| Guangzhou Ming Xing Pharmaceutical Co., Ltd | With the same ultimate holding company | Account receivables | 1,714 | 21,370 | 22,002 | 1,082 | Payment for goods | Operational |
| | | Prepayment | — | 8,547 | 171 | 8,376 | Payment for goods | Operational |
| Guangzhou Tian Xin Pharmaceutical Co., Ltd | With the same ultimate holding company | Account receivables | 1,842 | 13,082 | 13,511 | 1,413 | Payment for goods | Operational |
| | | Prepayment | — | 1,543 | — | 1,543 | Payment for goods | Operational |
| Guangzhou He Ji Gong Pharmaceutical Co., Ltd | With the same ultimate holding company | Account receivables | 238 | 4,641 | 4,179 | 700 | Payment for goods | Operational |
| | | Prepayment | — | 1,656 | 1,527 | 129 | Payment for goods | Operational |
| Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd | With the same ultimate holding company | Account receivables | 2,895 | 58,459 | 54,452 | 6,902 | Payment for goods | Operational |
| | | Prepayment | — | 18,748 | 10,000 | 8,748 | Payment for goods | Operational |
| Guangzhou Hua Nan Medical Appratus Co., Ltd | With the same parent company | Other receivables | 100 | — | — | 100 | Payment for goods | Operational |
| Po Lian Development Co., Ltd | With the same parent company | Other receivables | 7,993 | — | 7,993 | — | Payment received on behalf of third party | Non-operational parent company |
| | | Prepayment | — | 9,369 | — | 9,369 | Payment for goods | Operational |
| Guagnzhou Medical Industrial Research Institute | With the same parent company | Account receivables | — | 8 | 8 | — | Payment for goods | Operational |
| Guangzhou Baiyunshan HW Chinese Medicine Co., ltd | With the same ultimate holding company | Account receivables | 1,777 | 13,408 | 14,491 | 694 | Payment for goods | Operational |
| | | Prepayment | 197 | 342 | 193 | 346 | Payment for goods | Operational |

## OTHER MATTERS *(continued)*

### (XVII) Explanation of Certified Public Accountants in respect of Funds Used by the Controlling Shareholders and Other Connected Parties of the Company *(continued)*

| Name of the party who used the Funds | The relationship between the party and the listed company | The account item for the amount will be included | The fund appropriated at the beginning of 2006 *RMB'000* | Accumulated amount appropriated in 2006 *RMB'000* | Accumulated amount repaid in 2006 *RMB'000* | Fund appropriated as at the end of 2006 *RMB'000* | Reasons for drawing fund | Nature |
|---|---|---|---|---|---|---|---|---|
| Guangzhou Baiyunshan Pharmaceutical General Factory- | With the same ultimate holding company | Account receivables | 4,225 | 31,020 | 31,326 | 3,919 | Payment for goods | Operational |
| Guangzhou Baiyunshan Chemical Medicine Factory | With the same ultimate holding company | Account receivables | 1,209 | 16,063 | 14,005 | 3,267 | Payment for goods | Operational |
| Guangzhou Baiyunshan External Use Pharmaceutical Co., Ltd. | With the same ultimate holding company | Account receivables | 170 | 2,563 | 1,875 | 858 | Payment for goods | Operational |
| Guangzhou Pharmaceutical Economic and Development Corporation | With the same parent company | Account receivables | — | 26 | — | 26 | Payment for goods | Operational |
| Wang Lao Ji | Joint venture | Account receivables | 2,268 | 47,027 | 48,786 | 509 | Payment for goods | Operational |
| | | Other receivables | — | 362 | — | 362 | Trademark fees | Operational |
| Guangzhou Lianjie Computer Technology Co., Ltd | Joint venture | Other receivables | 520 | — | 520 | — | Current borrowings | Non-Operational |
| Sub-total | | Account receivables | 42,805 | 277,266 | 265,936 | 54,135 | | |
| | | Other receivables | 13,673 | 448 | 9,588 | 4,533 | | |
| | | Prepayment | 197 | 40,204 | 11,891 | 28,510 | | |

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**(OTHER MATTERS** *(continued)*

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

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

As at 31 December 2006, the Company had provided the following guarantees to its subsidiaries:

| Guaranteed Party | Guarantee amount *(RMB'000)* | Subject matter | Guarantee period |
|---|---|---|---|
| Pharmaceuticals Corporation | 220,000 | Current borrowings | One year |
| Chinese Medicine Corporation | 10,000 | Current borrowings | One year |
| Pharmaceutical Import & Export Corporation | 10,000 | Current borrowings | One year |
| Guangzhou Han Fang | 34,920 | Current borrowings | One year |
| Guangzhou Bai Di | 10,000 | Current borrowings | One year |
| Pharmaceuticals Corporation | 60,630 | Discounted note | One year |
| Pharmaceutical Import & Export Corporation | 8,970 | Discounted note | One year |
| Pharmaceutical Import & Export Corporation | 9,560 | Discounted note | One year |
| | 364,080 | | |

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

On behalf of the Board
**Yang Rongming**
*Chairman*

Guangzhou, the PRC, 27 April 2007