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廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

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

(Stock Code: 0874)

Summary of 2005 Annual Report

1. IMPORTANT NOTICE

- 1.1 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 summary and confirm that there are no false information, misleading statements or material omissions in this summary.
- 1.2 All the Directors of the Board were present at the 21st Meeting of the Third Board of the Company.
- 1.3 Mr. Yang Rongming, the Chairman, Mr. Xie Bin, the General Manager, and Mr. Chen Binghua, the 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 summary.

- 1.4 Guangdong Yangcheng Certified Public Accountants Co., Ltd., the domestic auditors, and PricewaterhouseCoopers, the international auditors, have audited the financial reports of the Group and the Company for the year ended 31 December 2005 (the “Reporting Period” or the “Year”) and issued unqualified auditors’ reports thereon.
- 1.5 Unless otherwise specified, all the financial data contained in this summary is prepared in accordance with the PRC Accounting Standards and Systems.
- 1.6 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the accounts prepared in accordance with the accounting principles generally accepted in Hong Kong (“HK GAAP”) and the international auditors’ report thereon, the Chinese version shall prevail.
- 1.7 All the information required by paragraphs 45 and 45A of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEx”) (the “Listing Rules”) will be published on the website of HKEx at <http://www.hkex.com.hk> in due course.

2. COMPANY PROFILE

2.1 General Information

Stock Abbreviation:	GZ Phar.
Stock Code:	600332 (A share)
Stock Exchange:	The Shanghai Stock Exchange
Stock Abbreviation:	GZ Phar.
Stock Code:	0874 (H share)
Stock Exchange:	The Stock Exchange of Hong Kong Limited
Registered address:	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC
Postal code:	510130
Website:	http://www.gpc.com.cn
E-mail address:	sec@gpc.com.cn

2.2 Contacts

	Company secretary	Representative of securities affairs
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3. FINANCIAL DATA AND INDICATORS

3.1 Principal financial data

	2005	2004	Changes as compared with 2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>
Income from principal operations	9,026,340	7,708,314	17.10	6,971,963
Total profit	306,741	167,642	82.97	284,773
Net profit	184,482	55,292	233.65	139,795
Net profit after deducting non-operating profit	185,561	63,170	193.75	141,143
Net cashflow from operating activities	146,323	200,542	(27.04)	(6,830)

	As at 31	As at 31	Changes as compared with 31	As at 31
	December 2005	December 2004	December 2004	December 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>
Total assets	5,098,095	5,182,878	(1.64)	4,707,039
Shareholders' funds (excluding minority interests)	2,621,437	2,440,230	7.43	2,429,476

3.2 Financial indicators

	<i>RMB'000</i>			
	2005	2004	Changes as compared with 2004 (%)	2003
Earnings per share (RMB)	0.23	0.07	233.65	0.17
The latest earnings per share (RMB)	0.23	0.07	233.65	0.17
Return on net assets (%)	7.04	2.27	An increase of 4.77 percentage points	5.75
Return on net assets calculated on the basis of net profit after deducting non-operating items (%)	7.64	2.63	An increase of 5.01 percentage points	6.06
Net cashflow per share generated from operating activities (RMB)	0.18	0.25	(27.04)	(0.01)
	As at 31 December 2005	As at 31 December 2004	Changes as compared with 31 December 2004 (%)	As at 31 December 2003
Net assets per share (RMB)	3.23	3.01	7.43	3.00
Adjusted net assets per share (RMB)	3.17	2.96	7.09	2.92

Non-operating items

Applicable Not applicable

	<i>RMB'000</i>
Non-operating items	Amount
Losses on disposal of long-term equity investment and fixed assets	(806)
Government grants and subsidies	720
Gain / (loss) from short-term investments	(7,659)
Non-operating expenses after deducting provision for value impairment of assets	1,052
Gain / (loss) from entrusted investments	(517)
Reversal of provisions for impairments made in the previous years	6,642
Income tax effect	553
Minority interests	(41)
Total	(1,080)

3.3 Differences between the accounts prepared in accordance with PRC Accounting Standards and Systems and HK GAAP

Applicable Not applicable

	<i>RMB'000</i>
Net profit under PRC Accounting Standards and Systems	184,482
Amortisation of intangible assets	1 (10,382)
Additional depreciation on revalued fixed assets	2 (1,975)
Government grants recognised as income	3 452
Provision for employee benefits in medical insurance	4 6,017
Deferred taxation, net impact	5 4,841
Impairment on goodwill	6 (1,791)
Negative goodwill arising from the additional investment of an external investor into a subsidiary	7 19,819
Appropriation to staff bonus and welfare fund charged as expenses	8 (6,074)
Unsettled long outstanding payables written off recognised as income	9 2,397
Receipt of non-cash donation recognised as income	10 440
Differences in minority interests	11 (422)
	197,804
Profit attributable to equity holders of the Company under HK GAAP	197,804

- 1) This is an amortisation of staff quarter reform costs incurred by the Company and its subsidiaries (collectively the “Group”) prior to 2000 in relation to purchases of staff quarters by its employees. Under HK GAAP, such costs are recognised as an intangible asset and are subject to amortisation on a straight-line basis over a period of 10 years to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC Accounting Standards and Systems, the staff quarter reform costs are written off against retained earnings of the year in which they were incurred.

- 2) The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing the Company's H shares. The revaluation has been reflected in the accounts of the Group prepared under HK GAAP but not in the accounts prepared under PRC Accounting Standards and Systems. Accordingly, the depreciation charge under HK GAAP is higher than that calculated under PRC Accounting Standards and Systems as the depreciation charge under HK GAAP is based on the revalued amount of fixed assets.
- 3) Government subsidies allocated for fixed assets are recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, government subsidies are recognised as deferred income and credited to the income statement on a straight line basis in accordance with the estimated useful lives of the assets.
- 4) On 1 December 2001, the Group has participated in a medical insurance scheme set up and managed by the Guangzhou People's Municipal Government as required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government. Medical insurance relating to contributions accrued for the past service rendered by the retired and retiring employees are recognised as expenses in prior years under HK GAAP. However, in the accounts prepared under PRC Accounting Standards and Systems, medical insurance for the past service is recognised as expenses on cash basis. Cash basis is not acceptable under HK GAAP.
- 5) The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, deferred tax is accounted for using the balance sheet liability method on all taxable temporary differences for deferred tax liability, and to recognise deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

- 6) Goodwill is amortised using the straight-line method under PRC Accounting Standards and Systems. Under HK GAAP, any impairment on goodwill is accounted for in the income statement on a yearly basis.
- 7) Equity in a subsidiary of the Company was diluted due to the issue of new shares to a third party by such subsidiary. Surplus arising from such transaction is recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it is accounted for in the income statement.
- 8) This was the staff bonus and welfare fund appropriated from profit after taxation in the accounts prepared under PRC Accounting Standards and Systems. Under HK GAAP, it was recognised as expenses in the income statement of the Reporting Period.
- 9) Write-off of payable was recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it was recognised in the income statement and was transferred from profit after tax to capital reserve.
- 10) Non-cash donation accepted by the Group was recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it was recognised in the income statement and was transferred from profit after tax to capital reserve.
- 11) Owing to the above adjustments, there is a difference in net profit / profit attributable to equity holders of the Company prepared under PRC Accounting Standards and Systems and HK GAAP. This results in a difference in the minority interests.

3.4 Financial indicators prepared in accordance with HK GAAP

Indicators	2005	2004	2003	2002	2001
Turnover (RMB'000)	9,026,340	7,709,565	6,973,113	5,943,823	5,334,029
Profit before income tax (RMB'000)	315,493	161,675	307,829	196,360	205,987
Profit attributable to equity holders of the Company (RMB'000)	197,804	42,829	146,667	101,155	95,868
Total assets (RMB'000)	5,316,420	5,413,438	4,954,091	4,410,210	3,877,969
Total liabilities (RMB'000)	2,391,590	2,655,559	2,220,047	1,807,058	1,345,841
Capital and reserve attributable to equity holders of the Company (RMB'000)	2,723,123	2,545,592	2,551,417	2,454,080	2,408,430
Earnings per share (RMB)	0.24	0.05	0.18	0.13	0.12
Capital and reserve attributable to equity holders of the Company per share (RMB)	3.36	3.14	3.15	3.03	2.97
Return on capital and reserve attributable to equity holders of the Company (%)	7.26	1.68	5.75	4.12	3.98
Ratio of capital and reserve attributable to equity holders of the Company (%)	51.22	47.02	51.50	55.65	62.11
Gearing ratio (%) (Note)	44.98	49.05	44.81	40.97	34.70

Note: Gearing ratio is calculated according to the following formula:
total liabilities / total assets x 100%.

4. CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Movement in share capital

	Before change		Right issues	Change (+ / -)		New issues	Others	After change	
	Number of shares	Percentage (%)		Bonus issues	Reserves capitalized			Number of shares	Percentage (%)
I. Unlisted shares									
1. Founders' shares	513,000,000	63.26	—	—	—	—	—	513,000,000	63.26
Including:									
State-owned shares	513,000,000	63.26	—	—	—	—	—	513,000,000	63.26
Domestic legal entities' shares	—	—	—	—	—	—	—	—	—
Overseas legal entities' shares	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
2. Collective legal entities' shares	—	—	—	—	—	—	—	—	—
3. Inner staff shares	—	—	—	—	—	—	—	—	—
4. Preferred shares or others	—	—	—	—	—	—	—	—	—
Total unlisted shares	513,000,000	63.26	—	—	—	—	—	513,000,000	63.26
II. Listed shares									
1. Renminbi-denominated ordinary shares (A shares)	78,000,000	9.62	—	—	—	—	—	78,000,000	9.62
2. Domestic listed foreign capital shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign capital shares (H shares)	219,900,000	27.12	—	—	—	—	—	219,900,000	27.12
4. Others	—	—	—	—	—	—	—	—	—
Total listed shares	297,900,000	36.74	—	—	—	—	—	297,900,000	36.74
III. Total shares	810,900,000	100.00	—	—	—	—	—	810,900,000	100.00

4.2 The top ten shareholders and the top ten shareholders holding listed shares of the Company

**Number of shareholders as at the end
of the Reporting Period** **38,724**

The top ten shareholders:

Shareholders	Nature of holders	% of the issued share capital (%)	No. of shares	Number of unlisted shares (shares)	Number of pledged or locked shares
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	State-owned shares	Approximately 60.55	491,000,000	491,000,000	(Notes (a))
HKSCC Nominees Limited	Holders of H shares	Approximately 26.92	218,274,799	—	unknown
China Greatwall Asset Management Corporation	State-owned shares	Approximately 2.71	22,000,000	22,000,000	None
Yulong Securities Investment Fund	Holders of A Shares	Approximately 0.25	2,000,000	—	unknown
Shenyin & Wanguo-Citibank-UBS Limited	Holders of A Shares	Approximately 0.22	1,836,200	—	unknown
National Social Security Fund 109 Group	Holders of A Shares	Approximately 0.21	1,692,353	—	unknown
Everbright Bank of China-Taixin Strategic Open Securities Investment Fund	Holders of A Shares	Approximately 0.21	1,685,703	—	unknown
Merchants Securities-Standard Chartered-ING Bank N.V.	Holders of A Shares	Approximately 0.20	1,662,332	—	unknown
Guotai Junan-Construction Bank-The Hongkong and Shanghai Banking Corporation Limited	Holders of A Shares	Approximately 0.17	1,395,037	—	unknown
Shenyin Wanguo-HSBC-Merrill Lynch International	Holders of A Shares	Approximately 0.17	1,369,339	—	unknown

The top ten shareholders holding listed shares of the Company:

Shareholders	No. of listed shares held (<i>share</i>)	Nature of shares
HKSCC Nominees Limited	218,274,799	H shares
Yulong Securities Investment Fund	2,000,000	A shares
Shenyin & Wanguo-Citibank-UBS Limited	1,836,200	A shares
National Social Security Fund 109 group	1,692,353	A shares
Everbright Bank of China-Taixin Strategic Open Securities Investment Fund	1,685,703	A shares
Merchants Securities-Standard Chartered-ING Bank N.V.	1,662,332	A shares
Guotai Junan-Construction Bank-The Hongkong and Shanghai Banking Corporation Limited	1,395,037	A shares
Shenyin Wanguo-HSBC-Merrill Lynch International	1,369,339	A shares
HSBC Nominees (Hong Kong) Limited	866,000	H shares
China Construction Bank-Baokang Consumer Goods Securities Investment Fund	600,198	A shares

Explanation on the connection among the above ten shareholders

- (a) During the Reporting Period, the controlling shareholder of the Company — GPLH applied part of its shares in the Company for debt restructuring of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“Guangzhou Baiyunshan”) with 115,440,000 shares involved, among which 12,480,000 shares are intended to be transferred to Guangzhou Baiyunshan and the relative procedures are currently being processed. There are still 102,960,000 shares being pledged (including 65,110,000 shares were judged to be auctioned on 11 November 2005.)
- (b) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

- (c) Among the top ten shareholders of the Company, GPLH is not connected with the other nine shareholders and are not persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholder’s Shareholding in Listed Companies”. The Company is not aware of any connection among the other nine shareholders, or whether they are persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

4.3 Information on the controlling shareholder and beneficial owner of the Company

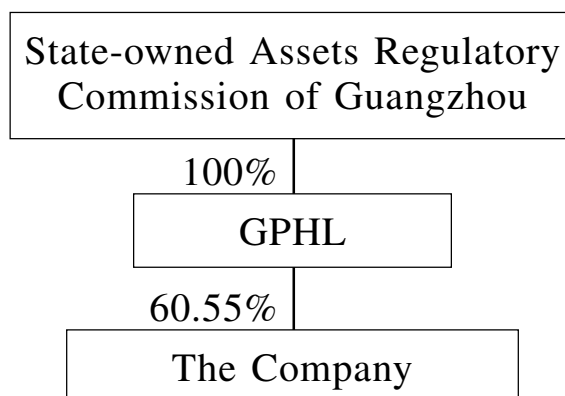
4.3.1 Change in the controlling shareholder and beneficial owner of the Company

Applicable Not applicable

4.3.2 Information of the controlling shareholder and beneficial owner of the Company

Name of shareholder	% of shares held	Legal representative	Date of establishment	Registered capital	Business scope
GPLH	60.55%	Yang Rongming	7 August 1996	RMB1,007.7 million	To invest in and manage State-owned assets, to sell and manufacture chemical medicine, 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.

4.3.3 Relationship between the Company and its beneficial owner



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

4.3.5 Public float

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

4.3.6 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.

5. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

5.1 Change of directors', supervisors' and senior management's interest in shares and their emoluments

Name	Title	Gender	Age	Term of office	Shares	Shares	Reason for change	Emoluments	Whether there is
					held as at 1 January 2005 (Share)	held as at 31 December 2005 (Share)		received from the Company RMB'000	received from shareholders or other connected parties
Yang Rongming	Chairman	Male	52	From 1 Nov 2004 till the election of the new board members	—	—	—	—	Yes
Zhou Yuejin	Vice chairman	Male	48	From 6 March 2004 till the election of the new board members	28,900	28,900	—	325	No
Xie Bin	Director & General Manager	Male	48	From 30 June 2005 till the election of the new board members	1,000	1,000	—	197	No
Feng Zansheng (Note)	Executive director	Male	55	From 6 March 2004 till the election of the new board members	—	—	—	—	No
Wu Zhang	Independent non-executive director	Male	48	From 6 March 2004 till the election of the new board members	—	—	—	80	No
Wong Hin Wing	Independent non-executive director	Male	43	From 6 March 2004 till the election of the new board members	—	—	—	80	No
Zhang Heyong	Independent non-executive director	Male	65	From 6 March 2004 till the election of the new board members	—	—	—	80	No
Chen Canying	Chairman of the Supervisory Committee	Male	56	From 6 March 2004 till the election of the new Supervisory Committee	9,800	9,800	—	—	Yes
Ouyang Qiang	Supervisor	Male	43	From 6 March 2004 till the election of the new Supervisory Committee	10,100	10,100	—	158	No

Zhong Yugan	Supervisor	Male	49	From 6 March 2004 till the election of the new Supervisory Committee	—	—	—	30	No
He Shuhua	Deputy General Manager & Company Secretary	Male	49	From 28 April 2004 till the election of the new board members	27,700	27,700	—	278	No
Su Guangfeng (note)	Deputy General Manager	Male	42	From 30 June 2005 till the election of the new board members	—	—	—	—	No
Chen Binghua (note)	Financial controller	Male	40	13 Dec 2005 till the election of the new board members	4,800	4,800	—	145	No
Gao Fang (note)	Financial controller	Male	47	From 28 April 2004 till 30 Nov 2005	—	—	—	125	No
Total	—	—	—	—	82,300	82,300	—	1,498	—

Notes:

- (1) Mr. Feng Zansheng and Mr. Su Guangfeng received annual emoluments from the subsidiaries of the Company for the year 2005.
- (2) Mr. Chen Binghua was appointed to be the Financial Controller of the Company on 13 December 2005 and he received the above annual emoluments from his original post.
- (3) Mr. Gao Fang ceased to be the Financial Controller of the Company with effect from 30 November 2005;

6. REPORT OF THE DIRECTORS

6.1 Management discussion and analysis

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) Review of operating results

During the Reporting Period, the Group has taken the following measures: (i) it strengthened the monitoring and management of the operations of its subsidiaries and actively participated in their material decision-making process in relation to their operations to seek to improve the operations and efficiency of the subsidiaries; (ii) it focused on expanding the markets outside the province following the consolidation of the markets in southern China, expedited the construction of networks of end-markets by aggressively expanding the distribution networks outside the province and exploring end-markets such as key hospitals, retail pharmacies, communities and rural areas and increasingly built up professional reputation as well as improved the consolidation and integral influence of GPC in the market; (iii) it facilitated the process of resource integration and uniformity operation within the Group by focusing on a centralised purchasing of traditional Chinese medicine, raw materials in large bulks, packaging material, materials for import and advertisement and strengthening the business cooperation between the manufacturing and trading businesses within the Group and enlarging the market share of the Group's products by leveraging on the advantages of wholesale and retail networks of the Group's Trading Operations; and (iv) it expedited the construction of technology platform of the Group, and facilitated the research and development of new products and application of new technologies. Through the implementation of these measures, the Group achieved a good result. During the Reporting Period, a significant growth was recorded in the operating results of the Group, which reached the highest record level.

According to the Group's consolidated accounts for the Reporting Period prepared under the PRC Accounting Standards and Systems, the turnover of the Group was approximately RMB9,026,340,000, representing an increase of 17.10% over that of 2004. Profit before tax was approximately RMB306,741,000, representing an increase of 82.97% over that of 2004. Net profit was approximately RMB184,482,000, representing an increase of 233.65% over that of 2004. According to the Group's accounts for the Year prepared under HK GAAP, the Group's turnover amounted to approximately RMB9,026,340,000, representing an increase of 17.07% over that of 2004. Profit before taxation was approximately RMB315,493,000, representing an increase of 95.14% over that of 2004, and profit attributable to equity holders of the Company was approximately RMB197,804,000, representing an increase of 361.84% over that of 2004.

(2) Chinese Patent Medicine manufacturing business (the "Manufacturing Operations")

According to the Group's consolidated accounts prepared under the PRC Accounting Standards and Systems, turnover of the Manufacturing Operations for the Year was RMB2,141,675,000, representing an increase of 11.60% over that of 2004. Total profit was RMB216,380,000, representing an increase of 20.00% over that of 2004, and net profit was RMB120,209,000, representing an increase of 27.60% over that of 2004. According to the Group's accounts prepared under HK GAAP, turnover of the Manufacturing Operations for the Year was RMB2,141,675,000, representing an increase of 11.60% over that of 2004. Profit before taxation was RMB230,502,000, representing an increase of 29.51% over that of 2004, and profit attributable to equity holders of the Company was RMB136,761,000, representing an increase of 56.34%. Both sales income and profit before taxation for the Manufacturing Operations reached the highest record level.

Through the implementation of the aforesaid measures, there were 36 products whose sales income exceeded RMB10 million during the year 2005, of which annual sales income exceeding RMB100 million included Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xia Sang Ju and the series of Wang Lao Ji Liang Cha, the annual sales income of 17 products ranged from RMB30 million to RMB100 million and the annual sales income of 15 products ranged from RMB10 million to RMB30 million. The sales income for the Year of certain key products such as Xia Sang Ju, Wang Lao Ji Liang Cha, Throat, spleen and intestine pills, She Dan Chuan Bei Pi Pa Gao and Zhi Ke Chuan Bei Pi Pa Lu increased significantly by 28.78%, 117.49%, 46.53%, 42.7% and 33.56% respectively as compared with the year of 2004.

For the Reporting Period, sales of cough and phlegm clearing medicine, diabetes curing medicine, gastric medicine and anthritis curing medicine for the Manufacturing Operations increased by 35.51%, 16.64%, 8.18% and 16.63% respectively as compared with the previous year.

- (3) Pharmaceutical trading business, including wholesale, retail, import and export (the “Trading Operations”)

According to the consolidated financial accounts for the Year prepared in accordance with PRC Accounting Standards and Systems, turnover of the Group’s Trading Operations was about RMB6,884,665,000, representing an increase of 18.92% over that of the previous year. Gross profit was about RMB90,361,000, representing an increase of 813.10% year-on-year, and net profit was RMB64,273,000, representing an increase of 265.14% year-on-year. According to the consolidated accounts for the Year prepared in accordance with HK GAAP, the turnover of the Group’s Trading Operations was about RMB6,884,665,000, representing an increase of 18.92% over that of the previous year. Profit before taxation was about RMB84,991,000, representing an increase of 621.35% year-on-year, and profit attributable to equity holders of the Company was RMB61,043,000, representing an increase of 236.72% year-on-year.

6.2 Analysis of principal activities of the Company by business and by product

Business / product	Turnover <i>RMB'000</i>	Cost of sales <i>RMB'000</i>	Gross profit margin (%)	Change in turnover as compared with 2004 (%)	Change in cost of sales as compared with 2004 (%)	Change in gross profit margin as compared with 2004 (%)
Principal activities:						
CPM manufacturing	2,141,675	1,025,243	51.27	11.60	12.19	(0.31)
Trading						
Include: Wholesale	6,345,288	5,987,652	5.55	18.83	19.34	(6.74)
Retail	318,669	254,472	19.83	14.29	14.36	(0.11)
Imports & Exports	220,708	205,607	6.83	29.41	29.97	(4.11)
Sub-total	6,884,665	6,447,731	6.26	18.92	19.44	(6.06)
Total	9,026,340	7,472,974	16.94	17.10	18.39	(4.88)
Include: connected transactions	201,295	187,853	6.41	139.22	140.70	(2.07)
Heat clearing and anti-toxic	496,761	256,538	48.36	2.61	(1.54)	6.87
Diabetes curing	406,503	137,166	66.26	16.64	23.09	(1.59)
Cough and phlemgh clearing	254,180	109,982	56.73	35.51	9.57	24.82
Anthrithis curing	244,004	91,465	62.51	16.63	21.07	(0.95)
Gastric	99,166	53,840	45.71	8.18	3.95	7.64
Other products	641,061	376,252	40.45	7.22	19.76	(12.71)
Including: connected transactions	4,761	3,422	28.12	55.64	60.43	(0.60)

Pricing policy for connected transactions The sale and purchase transactions with connected parties were at the terms consistent to those transactions with other third parties. The prices were decided on an arm's length basis after considering the relevant government pricing and market development.

Explanation on the necessity and continuity of connected transactions The Company's subsidiary, Guangzhou Pharmaceutical Imports & Exports Corporation, is mainly engaged in imports and exports of pharmaceutical products, raw materials and medical apparatus and purchased raw materials and pharmaceutical products on behalf of entities including connected parties. Other trading subsidiaries of the Company, mainly engaged in the trading of pharmaceutical products, purchased /sold pharmaceutical products from/to connected parties. The above constituted the necessity and continuity of connected transactions.

The total amount of sale of products from the Group to GPL together with its subsidiaries and their respective associates was RMB221,995,000 during the Reporting Period.

6.3 Geographical analysis of principal business

Region	Turnover <i>RMB'000</i>	Change as compared with 2004 <i>(%)</i>
Southern China	7,275,370	19.22
Eastern China	633,062	17.88
Northern China	326,148	9.18
North-Eastern China	198,550	(7.35)
South-Western China	348,867	15.54
North-Western China	138,283	(13.44)
Exports	106,060	13.01
Total	9,026,340	17.10

6.4 Use of proceeds from issue of A shares

Applicable Not applicable

Total proceeds raised (RMB'000) 737,990 **Total amount of proceeds utilized during the Reporting Period (RMB'000)** 21,760

Accumulated amount of proceeds utilized (RMB'000) 682,140

Projects	Budgeted		Change in projects	Progress of completion (%)	Investment return for the Reporting Period		Agreed with the planned stage of completion
	injection from proceeds RMB'000	Funds injected RMB'000			Increase in sales revenue RMB'000	Increase in gross profit RMB'000	
Xiao Ke Wan upgrade	29,800	29,800	No	100	181,470	119,770	Yes
Bao Ji Wan upgrade	11,000	11,000	No	100	13,550	3,570	Yes
Industrialisation of Wei Re Qing	29,000	24,580	No	88	No new return generated		No
Automation of pill production	11,000	11,000	No	100	11,990	7,430	Yes
Technology upgrade of Hua Tuo Zai Zao Wan	17,000	17,000	No	100	93,140	59,410	Yes
Technology upgrade of throat, spleen and intestine pills	29,100	22,160	No	85	34,260	14,570	Yes
Technology upgrade for syrup production	29,500	29,500	No	100	7,600	4,330	Yes
Industrialisation of Ke Gan Li Yan Syrup	19,600	19,600	No	100	16,650	9,320	Yes
Technology upgrade of Xu Han Ting Granules	12,000	12,000	No	100	24,330	17,520	Yes
Automation of granules upgrade	29,900	29,900	No	100	79,760	35,680	Yes
Technology upgrade of flu granules for children	23,000	23,000	No	100	4,530	3,100	Yes
Industrialisation of Fu Yan Xiao Soluble Tablets	29,500	23,790	No	84	No new return generated		No
Technology upgrade of spleen, intestine and pimples tablets	17,800	17,800	No	100	20,370	15,210	Yes
Technology upgrade of syrup workshops	29,500	29,500	No	100	53,860	31,780	Yes

Technology upgrade of suppository workshops	12,000	12,000	No	100	8,830	7,510	Yes
Modernisation of extraction and purification technology	29,900	29,900	No	100	2,930	1,160	Yes
Critical purification of CO2 technology foundation	29,900	29,900	No	100	No new return generated		Yes
Expansion of Jian Min chain pharmacies	89,300	88,840	No	100	No new return generated		No
Expansion of Cai Zhi Lin chain pharmacies	59,500	29,190	No	68	No new return generated		No
Logistics centre upgrade	20,000	20,000	No	100	2,513,850	115,130	Yes
ERP upgrade for the Trading Operations	20,000	16,220	No	85	No new return generated		No
Bio-tech research centre	80,000	75,770	No	95	1,320	No	No
Additional working capital	79,690	79,690	No	—	—	—	—
Total	737,990	682,140	—	—	3,068,440	446,440	—

Explanation on returns on
projects and the state of
completion
(on individual project)

Due to plant relocation, the completion of the technology upgrade for Fu Yan Xiao Soluble Tablets and Wei Re Qing Casules was delayed till 2006, while the expansion of chain pharmacies was slowed down as a result of fierce competition in the domestic pharmaceutical market.

Reasons and procedures of
change (on individual project)

No change

Change in projects

Applicable Not applicable

6.5 Details of investments other than those with proceeds of A shares

Applicable Not applicable

6.6 The explanation of the Company's management on the qualified opinion issued by the auditors

Applicable Not applicable

6.7 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 HK GAAP. The Board recommended a final dividend of RMB0.07 per share (including withholding tax for A shares) for the year ended 31 December 2005 (2004: RMB0.025). The proposed final dividend will be submitted to the forthcoming 2005 AGM for consideration and approval (the notice for convening the 2005 AGM will be published separately).

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

No profit distribution scheme is proposed while the Company records profit during the Reporting Period.

Applicable Not applicable

6.8 Liquidity

As at 31 December 2005, the current ratio of the Company was 1.55 (31 December 2004: 1.46), and its quick ratio was 0.98 (31 December 2004: 0.97). Accounts receivable turnover rate was 10.96 times, representing a decrease of 12.16% as compared with that of 2004. Inventory turnover rate was 6.71 times, representing an increase of 14.16% as compared with that of last year.

6.9 Financial resources

As at 31 December 2005, cash and cash equivalents of the Group amounted to RMB616,983,000, out of which 97.93% and 2.07% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2005, the Group had bank borrowings of RMB917,785,000 in total. The short-term borrowings of the Group was RMB867,785,000 (31 December 2004: RMB937,459,000) and RMB50,000,000 will be due in 2006 (31 December 2004: RMB47,680,000).

6.10 Capital structure

As at 31 December 2005, the Group's current liabilities amounted to RMB2,236,332,000 (31 December 2004: RMB2,398,058,000), representing a decrease of 6.74% over that of 2004, and its long-term liabilities was RMB54,826,000 (31 December 2004: RMB148,330,000), with a decrease of 63.04% as compared with 2004. The shareholders' funds of the Group as at 31 December 2005 amounted to RMB2,621,437,000 (31 December 2004: RMB2,440,230,000), with an increase of 7.43% as compared with 2004.

6.11 Capital expenditure

The Group expects the capital expenditure for 2006 to amount to approximately RMB245,000,000 (2004: RMB137,000,000), which will be mainly applied in acquisition of fixed assets and equity investment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

6.12 Gearing ratio

As at 31 December 2005, the Group's gearing ratio (calculated according to the formula: total liabilities / total assets) was 44.94%, with a decrease of 8.53% as compared with the year 2004.

6.13 Exposure to fluctuations in exchange rates

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

6.14 Main cash resources and its application

As at 31 December 2005, cash and cash equivalents of the Group amounted to RMB616,983,000, with a decrease of RMB263,842,000 as compared with last year. The net increase in cash and cash equivalents of the Group from operating activities amounted to RMB146,323,000, with a decrease of RMB54,220,000 as compared with last year, which was mainly attributable to the increase in purchase expenses.

6.15 Contingent liabilities

As at 31 December 2005, the Group has no significant contingent liabilities.

6.16 Charge on Group assets

At 31 December 2005, part of the Group's bank loans were secured by fixed assets with a net book value of RMB93,511,000.

6.17 Other events

6.17.1 During the Reporting Period, the Company had no material acquisition or disposal of assets (including its subsidiaries and affiliated companies), or merger.

6.17.2 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.

6.18 Employees of the Group

As at 31 December 2005, the number of employees on the payroll register of the Group was 8,600, including:

	No. of employees
Production and supporting staff	4,309
Sales personnel	1,659
Technical and engineering staff	1,284
Finance and statistics staff	292
Other administrative staff	1,056

83 of the employees are holders of a master degree and 1,106 are holders of a bachelor degree. The number of retirees was 4,747. The total salary payment for the Year was approximately RMB406,000,000.

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

7. MAJOR EVENTS

7.1 Purchase of assets

Applicable Not applicable

7.2 Disposal of assets

Applicable Not applicable

7.3 Material guarantees

Applicable Not applicable

Guarantees provided to parties other than the Company's subsidiaries						
Guaranteed entities	Date of the signing of agreements	Amount involved RMB'000	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties

— — — — — — —

Accumulated amount of guarantees provided during the Reporting Period	—
Balance of guarantees as at the end of the Reporting Period	—

The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period	478,290
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period	478,290

The Company's guarantees (including those provided to its subsidiaries)

Total amount of guarantees provided	478,290
% of the net assets of the Company	18.25

Include:

Amount of guarantees provided to the Company's shareholders, beneficial owner(s) and other connected parties	Nil
Direct or indirect guarantees provided to entities with a gearing ratio of over 70%	478,290
Amount of guarantees provided which exceeds 50% of the total net assets of the Company	Nil
Sub-total	478,290

Save as disclosed above, the Company did not provide any guarantees to any parties in which it holds less than 50% equity interests.

7.4 Material Connected Transactions

7.4.1 Continuing connected transactions in relation to daily operations

Applicable Not applicable

Connected parties	Products sold to / service provided to connected parties		Products purchased from / services provided by connected parties	
	Amount <i>RMB'000</i>	Percentage of the same type of transactions (%)	Amount <i>RMB'000</i>	Percentage of the same type of transactions (%)
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd	61,207	0.68	40,260	0.51
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd	13,227	0.15	38,479	0.49
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd	18,143	0.20	37,468	0.48
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd	1,487	0.02	10,113	0.13
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd	42,878	0.48	69,722	0.89
Guangzhou Huanan Medical Apparatus Co., Ltd	—	—	6	—
Po Lian Development Co., Ltd	—	—	160,840	2.05
Guangzhou Pharmaceutical Industrial Research Institute	2	—	—	—
Guangzhou Wanglaoji Pharmaceutical Co., Ltd	20,700	0.23	26,310	0.34
Guangzhou Baiyunshan Hutchison Whompoa Chinese Medicine Co., Ltd	17,715	0.20	39,950	0.51
Guangzhou Baiyunshan Pharmaceutical Factory	24,443	0.27	52,135	0.66
Guangzhou Baiyunshan Chemical Medicine Factory	20,430	0.23	2,295	0.03
Guangzhou Baiyunshan External Pharmaceutical Factory	1,763	0.02	5,578	0.07
Guangzhou Pharmaceutical Economic Development Corporation	—	—	15	—
Total	221,995	2.46	483,171	6.16

7.4.2 Funds to / from connected parties

Applicable Not applicable

Connected parties	Funds to connected parties		Funds from connected parties	
	Initial		Initial	
	amount	Balance	amount	Balance
	RMB'000	RMB'000	RMB'000	RMB'000
Receivable and payables:				
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd	71,612	26,468	47,104	1,632
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd	15,475	1,714	45,021	2,293
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd	21,227	1,842	43,838	206
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd	1,739	238	11,832	524
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd	50,168	2,895	81,574	740
Guangzhou Huanan Medical Apparatus Co., Ltd	—	—	8	11
Guangzhou Wanglaoji Pharmaceutical Co., Ltd	24,219	2,268	30,783	148
Po Lian Development Co., Ltd	—	—	169,175	49,750
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	20,726	1,777	46,742	2,046
Guangzhou Baiyunshan Pharmaceutical Factory	28,599	4,224	60,998	10
Guangzhou Baiyunshan Chemical Medicine Factory	23,903	1,208	2,685	—
Guangzhou Baiyunshan External Pharmaceutical Factory	2,063	170	6,526	292
Guangzhou Pharmaceutical Industrial Research Institute	2	—	—	—
Guangzhou Pharmaceutical Economic Development Corporation	—	—	17	17
Sub-total	259,733	42,804	546,303	57,669
pre-payments and payments in advance				
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd	—	—	4,525	22
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd	—	—	1,778	279
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd	—	—	91	91
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd	—	—	4,131	1
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	618	197	2,411	300
Guangzhou Baiyunshan Pharmaceutical Factory	—	—	4,756	—
Guangzhou Baiyunshan Chemical Medicine Factory	—	—	180	—
Guangzhou Wanglaoji Pharmaceutical Co., Ltd	—	—	176	176
Sub-total	618	197	18,048	869

Other receivables and payables				
GPHL	—	5,060	10,495	25,468
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd	—	—	—	—
Guangzhou Huanan Medical Apparatus Co., Ltd	—	100	—	—
Po Lian Development Co., Ltd	2,386	7,993	—	—
Guangzhou Lianjie Computer Technology Co., Ltd	520	520	—	—
Guangzhou Zhongfu Pharmaceutical Co.,Ltd	—	—	1,028	1,235
Guangzhou Wanglaoji Pharmaceutical Co., Ltd	—	—	97	97
Guangzhou Pharmaceutical Material Supply Corporation	—	—	1,276	3,000
Sub-total	2,906	13,673	12,896	29,800
Total	263,257	56,674	577,247	88,338

The amount of funds provided by the Company to its controlling shareholder and its subsidiaries during the Reporting Period amounted to RMB263,257,000, and the balance was RMB56,674,000.

Details of funds provided to connected parties and proposed settlement scheme

Applicable Not applicable

Connected parties	Relationship with the Company	Account	Balance as at	Balance as at	Transaction	Transaction	Nature	Remarks
			31 December 2005	1 January 2005	amount (debit)	amount (credit)		
			RMB'000	RMB'000	RMB'000	RMB'000		
GPHL	Parent company	Other receivables	5,060	6,312	1	1,253	Prepayment & current account	Prepaid rental and daily current account
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd	Under the same parent company	Accounts receivables	26,469	17,232	71,612	62,375	Sale	Production
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	Under the same parent company	Accounts receivables	1,714	739	15,475	14,501	Sale	Production
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Under the same parent company	Accounts receivables	1,842	5,481	21,227	24,866	Sale	Production
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Under the same parent company	Prepayment	—	202	—	202	Purchase	Production
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd	Under the same parent company	Other receivables	—	25	—	25	Current account	Production
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd	Under the same parent company	Accounts receivable	238	432	1,739	1,933	Sale	Production
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Under the same parent company	Accounts receivable	2,895	1,573	50,168	48,845	Sale	Production

Connected parties	Relationship with the Company	Account	Balance as at	Balance as at	Transaction	Transaction	Nature	Remarks
			31 December 2005	1 January 2005	amount (debit)	amount (credit)		
			RMB'000	RMB'000	RMB'000	RMB'000		
Guangzhou Hua Nan Medical Apparatus Co. Ltd.	Under the same parent company	Other receivable	100	100	—	—	Current account	Daily current account
Po Lian Development Co., Ltd	Under the same parent company	Other receivable	7,993	14,854	2,388	9,249	Current account	Daily current account
Guangzhou Pharmaceutical Industrial Research Institute	Under the same parent company	Accounts receivable	—	—	3	3	Sale	Production
Guangzhou Hutchison Whampoa Chinese Medicine Co., Ltd	Under the same parent company	Accounts receivable	1,777	1,154	20,726	20,104	Sale	Production
	Prepayment		197	—	618	421	Purchase	Production
Guangzhou Baiyunshan Pharmaceutical Factory	Under the same parent company	Accounts receivable	4,225	1,753	28,598	26,127	Sale	Production
Guangzhou Baiyunshan Chemical Pharmaceutical Factory	Under the same parent company	Accounts receivable	1,208	423	23,903	23,117	Sale	Production
Guangzhou Baiyunshan External Pharmaceutical Factory	Under the same parent company	Accounts receivable	170	—	2,063	1,894	Sale	Production
Guangzhou Wanglaoji Pharmaceutical Co., Ltd	Under the same parent company	Accounts receivable	2,268	—	24,219	21,951	Sale	Production
Guangzhou Lian Jie Computer Technology Co., Ltd	Under the same parent company	Other receivable	520	520	—	—	Current account	Daily current account
Total		Other receivables	13,673	21,812	2,388	10,527		
		Accounts receivable	42,805	28,786	259,734	245,715		
		Prepayment	197	202	618	623		

Repayment schedule

Planned repayment date	Repayment method	Repayment amount RMB'000	Remarks
End of February 2006	Setoff against rental and room service charge	7,554	An amount of RMB7,383,000 which was previously deposited in Po Lian Development Co., Ltd has been refunded
End of March 2006	Setoff against rental and room service charge	86	
End of April 2006	Setoff against rental and room service charge	86	
End of May 2006	Setoff against rental and room service charge	86	
End of June 2006	Setoff against rental and room service charge	86	
End of July 2006	Setoff against rental and room service charge	86	
End of August 2006	Setoff against rental and room service charge	86	
End of September 2006	Setoff against rental and room service charge	86	
End of October 2006	Setoff against rental and room service charge	86	
End of November 2006	Setoff against rental and room service charge	86	
End of December 2006	Setoff against rental and room service charge	86	
Total		8,416	

Note: Such outstanding amount does not include daily operational application fund.

Whether the proposed settlement scheme can solve the funds provided to connected parties by the end of 2006

Yes No Not applicable

7.5 Entrusted investments

Applicable Not applicable

7.6 Performance of undertakings

Applicable Not applicable

7.7 Material litigation and arbitration

Applicable Not applicable

7.8 Performance of duties by independent non-executive directors

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

7.8.1 Attendance of Board meetings by independent non-executive directors

Name	Meetings supposed to attend	Meetings attended in person (times)	Meetings attended by proxy (times)	Absence
Wu Zhang	7	7	/	/
Wong Hin Wing	7	7	/	/
Zhang Heyong	7	7	/	/

7.8.2 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 Board resolutions of the Company for the Year.

7.8.3 Independence of the independent non-executive directors

The Board confirmed 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 HKEx. The Board considers the existing independent non-executive directors to be independent persons and to be in compliance with the relevant provisions of Rule 3.13 of the Listing Rules.

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 shareholders or their respective connected persons.

7.8.4 Audit Committee

The Audit Committee of the Company has reviewed the accounting policies, accounting regulations and methods adopted by the Group, and discussed with the management about the audit, internal controls and financial reporting. The Audit Committee has reviewed the consolidated accounts of the Group for the year ended 31 December 2005.

8. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company considers that the Company's operations complied with the laws and relevant regulations, and its financial conditions, use of proceeds of A shares, acquisitions or disposal of assets and connected transactions.

9. FINANCIAL REPORTS

9.1 Audit Opinion

The Group's and the Company's accounts for the year ended 31 December 2005 were audited by Guangdong Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report [2006 Yang Cha Zi No. 7118] signed by the two Chinese certified public accountants, Ms. Wu Jiali and Mr. Ye Weixiang.

PricewaterhouseCoopers are the Company's international auditors, who issued an unqualified audit opinion on the Group's and the Company's accounts prepared under HK GAAP for the year ended 31 December 2005.

9.2 Financial reports prepared in accordance with PRC Accounting Standards and Systems (audited)

Balance sheet of the Group and the Company as at 31 December 2005

Items	The Group		The Company	
	As at 31	As at 1	As at 31	As at 1
	December 2005	January 2005	December 2005	January 2005
	RMB	RMB	RMB	RMB
Assets:				
Current assets:				
Cash	616,982,949.00	880,824,597.90	90,102,690.07	201,807,672.50
Short-term investments	10,902,520.00	18,562,000.00	372,902,520.00	18,562,000.00
Notes receivable	331,753,863.41	185,209,600.23	—	—
Dividends receivable	3,709,259.53	—	7,720,145.68	—
Interest receivable	—	—	—	—
Accounts receivables	959,776,870.53	967,659,441.43	—	—
Other receivables	64,432,895.76	111,782,083.42	166,931,572.06	345,237,748.98
Advances to suppliers	196,548,528.21	160,243,931.81	—	—
Subsidy receivable	3,361,927.18	2,224,155.35	—	—
Inventories	1,148,568,922.06	1,077,924,756.16	—	—
Prepaid expenses	120,665,259.48	89,835,431.99	—	—
Long-term debt investments				
maturing within one year	—	—	—	—
Other currents assets	—	—	—	—
Total currents assets	3,456,702,995.16	3,494,265,998.29	637,656,927.81	565,607,421.48

Items	The Group		The Company	
	As at 31	As at 1	As at 31	As at 1
	December 2005	January 2005	December 2005	January 2005
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Long-term investment				
Long-term equity investment	70,195,741.17	74,610,894.56	2,025,934,634.58	1,877,883,028.41
Long-term debt investment	—	—	—	—
Total long-term investment	70,195,741.17	74,610,894.56	2,025,934,634.58	1,877,883,028.41
Include: difference in consolidation	3,828,294.03	4,175,432.85	—	—
Include: difference in equity investment	3,828,294.03	4,175,432.85	—	—
Fixed assets:				
Fixed assets-cost	1,974,405,781.70	1,980,499,364.41	41,236,900.52	41,005,158.52
Less: accumulated depreciation	658,927,334.13	583,351,522.12	17,535,891.44	13,438,004.00
Fixed assets-net book value	1,315,478,447.57	1,397,147,842.29	23,701,009.08	27,567,154.52
Less: fixed assets impairment provision	17,902,314.55	25,352,941.92	—	7,109,752.25
Fixed assets-net book value	1,297,576,133.02	1,371,794,900.37	23,701,009.08	20,457,402.27
Construction supplies	—	—	—	—
Construction in progress	159,910,405.52	119,645,075.10	—	—
Fixed assets pending for disposal	—	—	—	—
Total fixed assets	1,457,486,538.54	1,491,439,975.47	23,701,009.08	20,457,402.27
Intangible assets and other assets:				
Intangible assets	98,677,683.80	103,345,329.75	—	—
Long-term prepaid expenses	15,031,582.69	19,215,827.64	912,355.01	1,492,460.43
Other long-term assets	—	—	—	—
Total intangible assets and other assets	113,709,266.49	122,561,157.39	912,355.01	1,492,460.43
Deferred taxation:				
Deferred tax debits	—	—	—	—
Total assets	5,098,094,541.36	5,182,878,025.71	2,688,204,926.48	2,465,440,312.59

Liabilities and shareholders' fund:**Current liabilities:**

Short-term loans	867,785,368.60	937,458,830.03	40,000,000.00	—
Notes payable	86,008,063.38	137,052,834.12	—	—
Accounts payable	869,696,059.12	848,628,472.16	—	—
Advances from customers	31,129,313.34	22,901,240.89	—	—
Accrued payroll	45,376,812.42	50,994,217.94	1,734,915.18	2,430,269.38
Welfare benefits payable	52,939,978.26	51,590,272.62	3,487,779.14	3,346,137.21
Dividends payable	26,492.89	26,383.04	24,739.37	25,980.20
Taxes payable	24,377,413.61	24,041,244.06	390,052.43	424,662.76
Other levies payable	3,628,657.66	2,880,392.94	12,605.17	21,220.74
Other payables	191,144,199.01	265,572,457.79	5,887,062.42	18,585,121.28
Accrued expenses	14,220,101.58	9,231,282.20	2,430,164.70	2,150,000.00
Provision for foreseeable liabilities	—	—	—	—
Portion of long-term liabilities due within one year	50,000,000.00	47,680,000.00	—	—
Other current liabilities	-	-	—	—
Total current liabilities	2,236,332,459.87	2,398,057,627.79	53,967,318.41	26,983,391.57

Long-term liabilities:

Long-term loans	—	109,500,000.00	—	—
Debentures payable	—	—	—	—
Payables after one year	4,716,728.21	5,020,012.56	—	—
Government grants payable	50,109,349.38	33,810,171.91	—	—
Other long-term payables	—	—	—	—
Total long-term liabilities	54,826,077.59	148,330,184.47	—	—

Deferred tax:

Deferred tax credits	—	—	—	—
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Total liabilities	2,291,158,537.46	2,546,387,812.26	53,967,318.41	26,983,391.57
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Minority interests	185,499,251.78	196,260,508.34	—	—
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Shareholders' fund:				
Share capital	810,900,000.00	810,900,000.00	810,900,000.00	810,900,000.00
Less: investment returned	—	—	—	—
Net share capital	810,900,000.00	810,900,000.00	810,900,000.00	810,900,000.00
Capital surplus	1,149,453,755.66	1,126,381,425.35	1,148,510,273.74	1,125,595,838.66
Reserved fund	567,243,340.17	480,442,389.26	182,088,980.38	153,118,167.58
Include: statutory				
welfare fund	179,461,575.56	153,572,065.40	71,271,823.11	61,614,885.51
Retained earnings	93,839,656.29	22,505,890.50	492,738,353.95	348,842,914.78
Include: dividends	56,763,000.00	20,272,500.00	56,763,000.00	20,272,500.00
Difference in				
foreign currency	—	—	—	—
Less: unrecognized				
investment loss	—	—	—	—
Total shareholders' fund	2,621,436,752.12	2,440,229,705.11	2,634,237,608.07	2,438,456,921.02
Total liabilities and				
shareholders' fund	5,098,094,541.36	5,182,878,025.71	2,688,204,926.48	2,465,440,312.59

Profit and loss account for the Group and the Company

	The Group		The Company	
	As at 31	As at 1	As at 31	As at 1
	December 2005	January 2005	December 2005	January 2005
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
By Sales	9,026,340,433.50	7,708,313,589.34	—	—
Less: Costs of sales	7,472,974,332.17	6,312,061,516.70	—	—
Less: Taxes and levies	24,613,910.81	23,762,977.68	—	—
Profit from principal operations	1,528,752,190.52	1,372,489,094.96	—	—
Add: Profit from other operations	43,301,531.41	39,007,734.82	7,446,705.82	8,408,475.17
Less: Operating expenses	592,206,898.41	533,614,941.06	—	—
Less: General and administrative expenses	628,434,629.66	656,588,252.79	24,099,918.37	24,568,843.51
Less: Finance costs	43,098,471.57	37,872,578.65	(1,286,468.67)	(2,129,172.49)
Operating profit	308,313,722.29	183,421,057.28	(15,366,743.88)	(14,031,195.85)
Add: Investment income	(8,063,080.65)	(4,735,840.64)	201,914,521.18	62,978,959.10
Add: Subsidy income	720,456.65	588,921.00	—	—
Add: Non-operating income	6,194,512.31	6,838,595.53	3,883.97	10,807.00
Less: Non-operating expenses	424,826.14	18,470,362.19	(6,587,090.70)	196,623.30
Total profit	306,740,784.46	167,642,370.98	193,138,751.97	48,761,946.95
Less: Income tax	112,611,673.47	103,569,528.75	—	—
Less: Minority interests	9,647,562.96	8,781,241.46	—	—
Add: Investment loss unrecognized	—	—	—	—
Net profit	184,481,548.03	55,291,600.77	193,138,751.97	48,761,946.95
Add: retained earnings brought forward	22,505,890.50	82,558,496.93	348,842,914.78	356,049,259.87
Add: transfer from others	9,916,543.07	153,385.06	—	—

Profit distributable	216,903,981.60	138,003,482.76	541,981,666.75	404,811,206.82
Less: transfer to to statutory surplus reserves	38,561,412.17	21,697,098.56	19,313,875.20	4,876,194.69
Less: transfer to statutory public welfare	28,896,962.62	19,113,504.99	9,656,937.60	2,438,097.35
Less: transfer to staff bonuses and welfare fund	6,074,331.34	2,693,501.02	—	—
Less: transfer to reserved fund	2,611,460.90	1,010,062.88	—	—
Less: transfer to expansion fund	2,611,460.90	1,010,062.88	—	—
Less: profit returned to investment	—	—	—	—
Profit distributable to shareholders	138,148,353.67	92,479,252.44	513,010,853.95	397,496,914.78
Less: dividend for preferred shares	—	—	—	—
Less: Transfer to discretionary surplus reserves	24,036,197.38	21,319,361.94	—	—
Less: dividend for ordinary shares	20,272,500.00	48,654,000.00	20,272,500.00	48,654,000.00
Less: dividend for ordinary shares transferred to share capital	—	—	—	—
Retained earnings	93,839,656.29	22,505,890.50	492,738,353.95	348,842,914.78

Supplementary information

1. Gain from sale, disposal of a business unit	4,674.88	(522,942.99)	—	—
2. Loss due to natural disaster	—	—	—	—
3. Increase/decrease in total profit as a result of change in accounting policies	—	—	—	—
4. Increase/decrease in total profit as a result of change in accounting estimates	—	—	—	—
5. Losses from debt restructuring	—	—	—	—
6. Others	—	—	—	—

Cash Flow Statement of the Group and the Company

Items	The Group 2005 RMB	The Company 2005 RMB
1. Cash flows from operating activities		
Cash received from sales of goods or rendering services	10,425,844,220.73	—
Refund of tax and levies	12,437,554.21	—
Other cash received relating to operating activities	104,674,129.82	11,308,896.03
Sub-total of cash inflows	10,542,955,904.76	11,308,896.03
Cash paid for goods or services	8,622,540,156.21	—
Cash paid to and on behalf of employees	584,881,163.05	6,577,370.76
Payments of all type of taxes	492,373,347.10	1,007,374.28
Other cash paid relating to operating activities	696,838,662.67	14,115,308.38
Sub-total of cash outflows	10,396,633,329.03	21,700,053.42
Net cash flows from operating activities	146,322,575.73	(10,391,157.39)
2. Cash flows from investing activities		
Cash received from disposal of investments	190,756.16	—
Include: cash received from disposal of investments	—	—
Cash received from investment income	3,405,374.88	115,690,821.22
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	1,229,572.07	250.00
Cash received from other investing activities	2,000,178.00	306,697,905.06
Sub-total of cash inflows	6,825,881.11	422,388,976.28
Cash paid to acquire fixed assets, intangible assets and other long-term assets	124,356,012.08	2,698,984.00
Cash paid to acquire investments	—	38,272,320.08
Include: cash paid to acquire subsidiaries	—	—
Other cash paid relating to investing activities	505,373.25	492,220,716.73
Sub-total of cash outflows	124,861,385.33	533,192,020.81
Net cash flows from investing activities	(118,035,504.22)	(110,803,044.53)

Items	The Group 2005 RMB	The Company 2005 RMB
3. Cash flows from financing activities		
Cash received from capital contributions	62,626,946.09	—
Include: cash received from capital contributions from minority shareholders	62,626,946.09	—
Cash received from borrowings	867,953,886.81	148,000,000.00
Cash received from other financing activities	473,964,226.86	51,059,940.88
Sub-total of cash inflows from financing activities	1,404,545,059.76	199,059,940.88
Cash repayments of amounts borrowed	1,075,515,518.21	108,000,000.00
Cash payments for distribution of dividends, profit or interest expenses	74,551,470.52	21,383,911.13
Include: cash payments for distribution of dividends to minority shareholders by subsidiaries	9,835,658.26	—
Other cash payments relating to financing activities	546,408,456.20	59,988,928.55
Include: cash payments to minority shareholders by subsidiaries as a result of reduction in investments	—	—
Sub-total of cash outflows from financing activities	1,696,475,444.93	189,372,839.68
Net cash flows from financing activities	(291,930,385.17)	9,687,101.20
4. Effect of foreign exchange rate changes on cash	(198,335.24)	(197,881.71)
5. Net increase in cash and cash equivalents	(263,841,648.90)	(111,704,982.43)

Supplemental information

1. Reconciliation of profit to cash flows from / (to) operating activities

Net profit (Loss was inserted with “—” sign)	184,481,548.03	193,138,751.97
Minority interests	9,647,562.96	—
Add: provision for asset impairment	(2,734,638.44)	(7,109,752.25)
depreciation of fixed assets	114,393,515.73	3,652,576.93
amortization of intangible assets	4,648,287.25	—
amortization of long-term expenses	10,699,040.96	580,105.42
decrease in prepaid expenses (less: increase)	(30,829,827.49)	—
increase in accrued expenses (less: decrease)	4,988,819.38	280,164.70
losses on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	610,373.49	—
losses on scrapping of fixed assets	944,068.05	7,828.19
finance costs	44,443,422.11	1,542,864.56
losses on investment (less: gain)	8,063,080.65	-201,914,521.18
deferred tax credit (less: debit)	—	—
decrease in inventories (less: increase)	(47,282,873.71)	—
decrease in operating receivables (less: increase)	(81,163,674.49)	846,278.53
decrease in operating payables (less: increase)	(63,827,561.33)	(1,335,068.58)
Others (Note)	(10,758,567.42)	(80,385.68)
Net cash flows from operating activities	146,322,575.73	(10,391,157.39)

2. Investing and financing activities that don't involve in cash receipts or payments

Conversion of debt into capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance leases	—	—

3. Net increase / (decrease) in cash and cash equivalents

Cash at the end of year	616,982,949.00	90,102,690.07
Less: cash at the beginning of year	880,824,597.90	201,807,672.50
Add: cash equivalents at the end of year	—	—
Less: cash equivalents at the beginning of year	—	—
Net increase / (decrease) in cash and cash equivalents	(263,841,648.90)	(111,704,982.43)

Note: Guangzhou Wanglaoji Pharmaceutical Co., Ltd (“Wanglaoji”) changed from a subsidiary to a jointly controlled entity of the Company as a result of the new shares issued to an independent third party in March 2005. Therefore, its results was consolidated according to the proportion of the shareholding of the Company with effect from March 2005. The accumulated amount for the year 2005 under this item represents the impact of the change of consolidation.

9.3 Explanation on the change in the accounting policy, accounting estimates and accounting errors of the Company, reasons and impact

Applicable Not applicable

9.4 During the Reporting Period, the Company did not have any material accounting errors when compared with the most recent annual report.

9.5 Explanation on any significant change in respect of consolidation scope of the Group, reasons and impact

Applicable Not applicable

During the Year, Golden Force Pharmacy Co., Ltd from Hong Kong has, pursuant to the Subscription Agreement, completed its capital injection of RMB168,880,000 into Wanglaoji and acquired a 48.0465% equity interest in Wanglaoji. Such capital injection has diluted the Company's interest in Wanglaoji from 92.48% to 48.0465%. Therefore, Wanglaoji has changed from a subsidiary to a jointly controlled entity. When preparing the consolidated financial statements, consolidation by proportion instead of full consolidation is adopted for Wanglaoji.

9.6 Consolidated income statement and consolidated balance sheet prepared under HK GAAP

CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Year ended 31 December	
		2005	2004
		<i>RMB'000</i>	<i>RMB'000</i>
Sales	3	9,026,340	7,709,565
Cost of goods sold	5	(7,472,974)	(6,313,633)
		<hr/>	<hr/>
Gross profit		1,553,366	1,395,932
Other revenues - net	4	91,594	65,146
Selling and marketing costs	5	(616,821)	(557,377)
Administrative expenses	5	(641,365)	(666,716)
Other operating expenses		(16,459)	(27,555)
		<hr/>	<hr/>
Operating profit		370,315	209,430
Finance costs	6	(53,610)	(47,194)
Share of losses of associates		(1,212)	(561)
		<hr/>	<hr/>
Profit before income tax		315,493	161,675
Income tax expense	7	(107,771)	(110,295)
		<hr/>	<hr/>
Profit for the year		207,722	51,380
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		197,804	42,829
Minority interest		9,918	8,551
		<hr/>	<hr/>
		207,722	51,380
		<hr/>	<hr/>

**Earnings per share for profit
attributable to the equity
holders of the Company
during the year**

(expressed in RMB per share)

— basic and diluted	8	<u>0.244</u>	<u>0.053</u>
Dividend	9	<u>56,763</u>	<u>20,273</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2005	2004
	<i>Note</i>	RMB'000	RMB'000
			Restated
ASSETS			
Non-current assets			
Property, plant and equipment		1,542,068	1,589,355
Investment properties		8,712	8,712
Land use rights		134,691	140,202
Intangible assets		49,506	57,546
Interests in associates		4,854	6,066
Available-for-sale financial assets		61,994	—
Investment securities		—	64,863
Deferred income tax assets		53,345	49,155
		<u>1,855,170</u>	<u>1,915,899</u>

Current assets			
Inventories		1,148,569	1,077,959
Trade and other receivables	10	1,683,197	1,518,633
Financial assets at fair value through profit or loss		10,903	—
Trading securities		—	18,562
Bank and cash balances		618,581	882,385
		<u>3,461,250</u>	<u>3,497,539</u>
Total assets		<u>5,316,420</u>	<u>5,413,438</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,592,034	1,592,034
Other reserves	11	989,014	880,427
Retained earnings			
- Proposed final dividend		56,763	20,273
- Others		85,312	52,858
		<u>2,723,123</u>	<u>2,545,592</u>
Minority interest		<u>201,707</u>	<u>212,287</u>
Total equity		<u>2,924,830</u>	<u>2,757,879</u>

		As at 31 December	
		2005	2004
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
			Restated
LIABILITIES			
Non-current liabilities			
Borrowings		—	109,500
Deferred income tax liabilities		42,522	43,174
Employee benefits		46,203	52,852
		<u>88,725</u>	<u>205,526</u>
Current liabilities			
Trade and other payables	12	1,359,720	1,430,214
Current income tax liabilities		25,360	34,680
Borrowings		917,785	985,139
		<u>2,302,865</u>	<u>2,450,033</u>
Total liabilities		<u>2,391,590</u>	<u>2,655,559</u>
Total equity and liabilities		<u>5,316,420</u>	<u>5,413,438</u>
Net current assets		<u>1,158,385</u>	<u>1,047,506</u>
Total assets less current liabilities		<u>3,013,555</u>	<u>2,963,405</u>

1 Scope of work of PricewaterhouseCoopers

The figures in respect of the preliminary announcement of the Group's results prepared under HK GAAP for the year ended 31 December 2005 have been agreed by the Group's international auditors, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated accounts prepared under HK GAAP for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

2 Basis of preparation

The accounts of the Company have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRS"). The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Properties
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 28 and 33 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity accounts.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights were accounted for at cost less accumulated amortisation and accumulated impairment.

The Group adopted the proportionate consolidation under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for by the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other revenues. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over a period ranging from 5 to 15 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

- From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statements of Standard Accounting Practice (“SSAP”) 24 “Accounting for Investments in Securities” to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.
- HKAS 40 - since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment properties.
- HKFRS 3 - prospectively after the adoption date.

(i) The adoption of revised HKAS 17 resulted in:

	As at 31 December	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Decrease in property, plant and equipment	134,691	140,202
Increase in land use rights	<u>134,691</u>	<u>140,202</u>

(ii) The adoption of HKAS 31 resulted in:

	As at 31 December	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Decrease in interests in jointly controlled entities	172,496	—
Increase in other non-current assets	61,069	—
Increase in current assets	140,566	—
Increase in long-term liabilities	4,547	—
Increase in current liabilities	24,592	—
	<u>240,270</u>	<u>0</u>

	As at 31 December	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Decrease in share of profits of jointly controlled entities	28,833	—
Increase in income	245,431	—
Increase in expenses	(216,598)	—
	<u>57,666</u>	<u>0</u>

(iii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at
	31 December 2005
	<i>RMB'000</i>
Increase in intangible assets	108
Increase in retained earnings	108
	<u>216</u>

	For the year ended
	31 December 2005
	<i>RMB'000</i>
Decrease in administrative expenses	108
Increase in basic and diluted earnings per share	0.0001
	<u>0.0001</u>

(iv) The adoption of HKAS 39 resulted in :

	As at 31 December 2005 RMB'000
Increase in available-for-sale financial assets	61,996
Decrease in investment securities	61,996
Increase in financial assets at fair value through profit or loss	10,903
Decrease in trading securities	<u>10,903</u>

There was no impact on basic and diluted earnings per share from the adoption of HKASs 17, 31, 39 and 40 and HKAS-Int 21.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKASs 17, 31, 38, 39 and 40, HKAS-Int 21 and HKFRS 3.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods are as follows:

- HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)
- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)

- HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 1 December 2005)

These new standards, amendments and interpretations to existing standards are either not relevant to the Group's operations or, if relevant, have not been early adopted by the Group, and management is currently assessing the impact on the Group's operations.

3 Segment information

Primary reporting format - business segments

At 31 December 2005, the Group is organised into the following business segments:

- Manufacturing of Chinese Patent Medicine (“CPM”);
- Wholesale of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus;
- Retail of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus; and
- Import and export of western pharmaceutical products, CPM and medical apparatus.

Turnover consists of sales of goods from the above business segments, which are RMB9,026,340,000 and RMB7,709,565,000 for the years ended 31 December 2005 and 2004 respectively.

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

The segment results are as follows:

	Year ended 31 December 2004					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total gross						
segment sales	1,936,887	5,601,112	278,839	193,661	(300,934)	7,709,565
Inter-segment sales	(16,656)	(261,155)	(9)	(23,114)	300,934	—
Sales	<u>1,920,231</u>	<u>5,339,957</u>	<u>278,830</u>	<u>170,547</u>	<u>—</u>	<u>7,709,565</u>
Segment results	205,990	49,599	(17,006)	3,790	(10,012)	232,361
Unallocated costs						<u>(22,931)</u>
Operating profit						209,430
Finance costs						(47,194)
Share of losses of associates	(561)					<u>(561)</u>
Profit before income tax						161,675
Income tax expense						<u>(110,295)</u>
Profit for the year						<u><u>51,380</u></u>

Year ended 31 December 2005

	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total gross						
segment sales	2,187,677	7,088,324	318,669	265,572	(833,902)	9,026,340
Inter-segment sales	(46,002)	(743,036)	—	(44,864)	833,902	—
	<u>2,141,675</u>	<u>6,345,288</u>	<u>318,669</u>	<u>220,708</u>	<u>—</u>	<u>9,026,340</u>
Sales						
Segment results	245,716	142,245	3,179	5,920	(27,477)	369,583
Unallocated profit						<u>732</u>
Operating profit						370,315
Finance costs						(53,610)
Share of losses of associates	(1,212)					<u>(1,212)</u>
Profit before income tax						315,493
Income tax expense						<u>(107,771)</u>
Profit for the year						<u><u>207,722</u></u>

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

	Year ended 31 December 2004					
	Import and					
	Manufacturing	Wholesale	Retail	export	Unallocated	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	82,534	26,031	2,362	509	3,392	114,828
Amortisation	11,467	3,206	—	30	—	14,703
Impairment of inventory	—	25,148	—	—	—	25,148
Impairment of trade and other receivables	1,007	7,539	—	144	—	8,690
Reversal of trade receivable impairment	(3,595)	—	—	—	—	(3,595)
Impairment of property, plant, and equipment	2,521	—	—	—	—	2,521

Year ended 31 December 2005

	Manufacturing	Wholesale	Import and		Unallocated	Group
			Retail	export		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	99,272	19,152	2,113	173	4,679	125,389
Amortisation	15,725	1,442	—	—	—	17,167
Impairment of goodwill	507	1,497	—	—	—	2,004
Impairment of inventories	580	929	—	—	—	1,509
Reversal of inventories impairment	—	(4,303)	—	—	—	(4,303)
Impairment of trade and other receivables	2,465	4,456	—	611	—	7,532
Reversal of trade and other receivables impairment	(1,692)	(100)	—	—	—	(1,792)
Reversal of property, plant, and equipment impairment	(341)	—	—	—	(7,110)	(7,451)

Unallocated costs represent corporate expenses.

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Import and		Unallocated	Elimination	Group
			Retail	export			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets	2,561,454	2,344,415	162,165	102,743	575,079	(338,484)	5,407,372
Associates	6,066	—	—	—	—	—	6,066
Total assets	2,567,520	2,344,415	162,165	102,743	575,079	(338,484)	5,413,438
Liabilities	766,297	2,018,186	69,252	69,194	71,114	(338,484)	2,655,559
Capital expenditure	307,788	16,200	4,085	366	91	—	328,530

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets	2,499,796	2,436,726	194,843	122,651	684,748	(627,198)	5,311,566
Associates	4,854	—	—	—	—	—	4,854
	<u>2,504,650</u>	<u>2,436,726</u>	<u>194,843</u>	<u>122,651</u>	<u>684,748</u>	<u>(627,198)</u>	<u>5,316,420</u>
Liabilities	<u>643,665</u>	<u>2,086,885</u>	<u>90,904</u>	<u>100,043</u>	<u>97,291</u>	<u>(627,198)</u>	<u>2,391,590</u>
Capital expenditure	<u>112,071</u>	<u>19,116</u>	<u>5,178</u>	<u>60</u>	<u>843</u>	<u>—</u>	<u>137,268</u>

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investment properties and other investments.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to land use rights, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

Geographical segment

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

4 Other revenues - net

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Gain on dilution of interest in a subsidiary	19,819	—
Interest income	10,522	9,326
Gross rental income from investment properties	22,796	21,883
Gross rental income from other properties	16,758	13,147
Royalty income	2,579	2,032
Realised income on disposal of trading securities	—	1,666
Dividend income from available-for-sale financial assets	3,405	—
Others	15,715	17,092
	<u>91,594</u>	<u>65,146</u>

5 Expenses by nature

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Depreciation and amortisation	142,556	129,530
Impairment expense of property, plant, and equipment	—	2,521
Impairment expense of investment securities	—	3,788
Impairment expense of available-for-sale financial assets	2,093	—
Impairment expense of goodwill	2,004	—
Impairment expense of trading securities	—	1,191
Impairment expense of financial assets at fair value through profit or loss	7,659	—
Impairment expense of receivables, net of reversal	5,740	5,095
Net (reversal of impairment) / impairment of inventories	(2,794)	25,148
Outgoings in respect of investment properties	3,713	3,749
Outgoings in respect of other properties	317	2,629
Loss on disposal of property, plant, and equipment	4,072	7,852
Research and development costs	37,984	30,984
Transportation	63,034	59,476
Advertising costs	196,136	198,068

Changes in inventories of finished goods and work in progress	26,932	31,457
Raw materials and consumables used	721,070	609,555
Auditors' remuneration	3,300	3,324
Operating leases for buildings	33,377	36,172
Employee benefit expense	631,690	612,611
	<u>631,690</u>	<u>612,611</u>

6 Finance costs

	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense on borrowings	51,338	48,513
Less: interest capitalised in construction in progress	—	(3,746)
	<u>51,338</u>	<u>44,767</u>
Other incidental borrowing costs	<u>2,272</u>	<u>2,427</u>
	<u>53,610</u>	<u>47,194</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress for the year ended 31 December 2004 was 4.32% to 5.49% per annum.

7 Income tax expense

The PRC enterprise income tax has been provided at the principal rate of 33% (2004: 33%) on the estimated assessable profit for the year, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises. Given the subsidiary was established in a coastal economic development zone, the applicable enterprise income tax rate is 27%. The jointly controlled entity is entitled to exemption from the PRC enterprise income tax for two years commencing from the first profit-making year and a 50% reduction in the enterprise income tax rates in the following three years. Companies comprising the Group that are incorporated outside the PRC are liable to pay income tax on their taxable income in accordance with the tax laws of the countries in which they operate.

	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
- PRC enterprise income tax	112,612	103,569
Deferred income tax	(4,841)	6,726
	<u>107,771</u>	<u>110,295</u>

8 Earnings per share

The calculation of earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity holders of the Company of RMB197,804,000 (2004: RMB42,829,000) and the 810,900,000 (2004: 810,900,000) shares in issue.

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the years ended 31 December 2005 and 2004.

9 Dividends

	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Final, proposed, of RMB0.070 (2004: RMB0.025) per share	<u>56,763</u>	<u>20,273</u>

At a meeting held on 31 March 2006, the directors declared a final dividend of RMB0.07 per share. The proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

10 Trade and other receivables

	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (a)	1,004,658	1,022,116
Less: provision for impairment of receivables	<u>(44,881)</u>	<u>(54,457)</u>
Trade receivables - net	959,777	967,659
Bills receivable	331,754	185,275
Other receivables and prepayments	386,606	359,387
Due from ultimate holding company	<u>5,060</u>	<u>6,312</u>
	<u>1,683,197</u>	<u>1,518,633</u>

- (a) Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of trade receivables is as follows:

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Within 6 months	922,280	849,715
6 months to 1 year	24,949	107,091
Over 1 year	57,429	65,310
	<u>1,004,658</u>	<u>1,022,116</u>

11 Transfers to reserves

Transfers to reserves of the Group from the consolidated retained earnings are as follows:

	For the year ended 31 December	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Capital reserve	1,966	2,243
Statutory surplus reserve	38,563	23,716
Statutory public welfare fund	34,119	19,114
Discretionary surplus reserve	24,036	21,319
	<u>24,036</u>	<u>21,319</u>

12 Trade and other payables

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Trade payables (a)	955,704	985,686
Due to ultimate holding company	25,468	19,865
Other payables and accrued charges	378,548	424,663
	<u>1,359,720</u>	<u>1,430,214</u>

(a) The ageing analysis of the trade payables is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Within 1 year	908,119	952,171
1 year to 2 years	25,264	13,724
Over 2 years	22,321	19,791
	<u>955,704</u>	<u>985,686</u>

By order of the Board
Yang Rongming
Chairman

Guangzhou, the PRC, 31 March 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. Xie Bin and Mr. Feng Zansheng as executive directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive directors.

ANNOUNCEMENT OF RESOLUTIONS PASSED AT THE 21ST MEETING OF THE THIRD SESSION OF THE BOARD

Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and all members of the board of directors (the “Board”) hereby confirm the truthfulness, accuracy and completeness of the contents of this announcement and jointly and severally accept full responsibility for any false representation, misleading statement or material omission herein contained.

The 21st meeting of the third session of the Board was convened on 31 March 2006 at the conference room of the Company at 2nd floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC, notice of which had been despatched on 16 March 2006 by way of fax and email. The meeting was presided by the chairman, Mr. Yang Rongming. 7 out of the 7 eligible directors of the Company attended the meeting while the supervisors, senior management, auditors and lawyers of the Company attended the meeting, which was in compliance with the requirements of Company Law and the Articles of Association of the Company.

After due consideration at the meeting, the following resolutions were passed with 7 affirmative votes, 0 dissenting vote and 0 vote abstaining from voting:

1. the report of the Board for the year 2005;
2. the audited financial report of the Company for the year 2005;
3. the auditors’ reports for the year 2005;

4. the proposal for profit distribution and dividend payment by the Company for the year 2005;

(1) the Company proposes to distribute the profit after tax for 2005 of the Company and its subsidiaries as follows:

a. As for the Company's subsidiaries engaging in manufacturing activity, 10% of the profit after tax shall be transferred to their statutory surplus reserves, 10% to their statutory public welfare funds, and 10% to their discretionary surplus reserves. As for the Company's subsidiaries engaging in trading activity, 10% of the profit after tax shall be transferred to their statutory surplus reserves, 10% to their statutory public welfare funds, and 20% to their discretionary surplus reserves.

b. As for the Company itself, 10% of the profit after tax shall be transferred to its statutory surplus reserve and 5% to its statutory public welfare fund while no appropriation will be made to the discretionary surplus reserve.

(2) The Company proposes to pay an annual dividend of RMB0.07 (A share, tax inclusive) per share for 2005, with a total amount of RMB56,763,000.

5. the projected profit distribution policy of the Company for the year 2006;

It is expected that the Company will distribute profit once in 2006. The profit appropriated for dividend distribution will not be less than 30% of the total net profit for 2006. The profit will be distributed in cash. The Company has no plan to increase share capital from the capital reserve in 2006.

6. the proposed total emoluments to be paid to the directors of the Company in 2006;

It is estimated that the total emoluments to be paid to the directors of the Company in 2006 will amount to RMB3,800,000.

7. the proposed total emoluments to be paid to the supervisors of the Company in 2006;

It is estimated that the total emoluments to be paid to the supervisors of the Company in 2006 will amount to RMB190,000.

8. the re-appointment of Guangdong Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers as the Company's domestic and international auditors respectively, and authorization to the Board to determine their remunerations;
9. the proposed amount of guarantees provided by the Company for bank loans to certain of its subsidiaries in 2006;

To facilitate its operating activities, the Company proposes to provide guarantees for loans to certain of its subsidiaries which engaged in trading activities including Guangzhou Pharmaceutical Corporation, Guangzhou Chinese Medicine Corporation and Guangzhou Pharmaceutical Import & Export Corporation in 2006, which propose to apply for banking facilities amounting to RMB800,000,000, RMB100,000,000 and RMB60,000,000 respectively.

10. the proposal for authorization to the Chairman to sign documents to guarantee credit facilities;
 - (1) to authorize the Chairman to sign documents on behalf of the Board to guarantee the loans of Guangzhou Pharmaceutical Corporation, Guangzhou Chinese Medicine Corporation and Guangzhou Pharmaceutical Import & Export Corporation, the amount of which shall fall within the guaranties amounts approved by the Board and the general meetings of the Company.
 - (2) to authorize the Chairman to sign documents on behalf of the Board for guaranties granted by the Company for the loans of its subsidiaries in which the Company holds 51% or more of equity interests in it and with gearing ratio not higher than 70%, and the single amount of which shall not be more than RMB100,000,000.
11. Management Regulations for Economic Contracts of Ying Bang Branch of Guangzhou Pharmaceutical Company Limited;

12. the proposal for convening the 2005 Annual General Meeting (the date for convening the 2005 Annual General Meeting will be determined later and disclosed separately).

**The Board of
Guangzhou Pharmaceutical Company Limited**

Guangzhou, PRC, 31 March 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. Xie Bin and Mr. Feng Zansheng as executive directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive directors.

**ANNOUNCEMENT OF RESOLUTIONS PASSED AT THE
7TH MEETING OF THE THIRD SESSION
OF THE SUPERVISORY COMMITTEE**

Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and all members of the supervisory committee of the Company (the “Supervisory Committee”) hereby confirm the truthfulness, accuracy and completeness of the contents of this announcement and jointly and severally accept full responsibility for any false representation, misleading statement or material omission herein contained.

The 7th meeting of the third session of the Supervisory Committee was convened on 31 March 2006 at the conference room of the Company at 2nd floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC, notice of which had been despatched on 16 March 2006 by way of fax and email. 3 out of the 3 eligible supervisors attended the meeting. The meeting was presided by the chairman of the Supervisory Committee, Mr. Chen Canying. The convention of the meeting was in compliance with the requirements of the Company Law and the Articles of Association of the Company.

After due consideration at the meeting, the following resolutions were passed with 3 affirmative votes, 0 dissenting vote and 0 vote abstaining from voting:

1. the 2005 annual report of the Company and its summary;
2. the report of the Supervisory Committee for the year 2005;
3. the audited financial report of the Company for the year 2005;
4. the proposed amounts of guarantees provided by the Company for bank loans of certain of its subsidiaries in 2006.

The Supervisory Committee of
Guangzhou Pharmaceutical Company Limited

Guangzhou, PRC, 31 March 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. Xie Bin and Mr. Feng Zansheng as executive directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive directors.

Please also refer to the published version of this announcement in The Standard / Hong Kong Economic Times.