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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)*

(H Share Stock Code: 0874)

## SUMMARY OF 2008 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 This summary is extracted from the full text of the 2008 annual report of the Company, which will both be published at the website (<http://www.sse.com.cn>) of the Shanghai Stock Exchange (“SSE”), and at the website (<http://www.hkex.com.hk>) of the Stock Exchange of Hong Kong Limited (“HKEx”). Investors who wish to know more details are advised to refer to the full text of the 2008 annual report carefully.
- 1.3 All Directors of the Board were present at the fourteenth meeting of the Fourth Session of the Board of the Company, among whom Mr. Liu Jinxiang, an Independent Non-executive Director, was unable to attend the meeting personally and had appointed Mr. Zhang Yonghua, an Independent Non-executive Director, to attend the meeting and vote on his behalf, and Mr Wong Hin Wing, an Independent Non-executive Director, attended the meeting by means of telephone communication.
- 1.4 Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd., the domestic auditor, and PricewaterhouseCoopers Certified Public Accountants, the international auditor, have audited the financial reports of the Company together with its subsidiaries (collectively the “Group”) and the Company for the year ended 31 December 2008 (the “Reporting Period” or the “Year”) and issued unqualified auditors’ reports thereon.
- 1.5 Mr. Yang Rongming, the Chairman, Mr Shi Shaobin, Director and General Manager, Mr. Chen Binghua, Financial Controller and Senior Manager of the Finance Department, warrant and confirm the authenticity and completeness of the financial reports contained in this summary.

- 1.6 Unless otherwise specified, the financial data quoted in this summary is prepared in accordance with PRC Accounting Standards.
- 1.7 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial report prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), the Chinese version shall prevail.
- 1.8 All the information required by paragraphs 45, 45A of Appendix 16 to the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) will be published on the website of HKEx 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 and office	45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC
Postal code	510130
Internet website	<a href="http://www.gpc.com.cn">http://www.gpc.com.cn</a>
E-mail	<a href="mailto:sec@gpc.com.cn">sec@gpc.com.cn</a>

### 2.2 Contacts

	<i>Secretary to the Board</i>	<i>Representative of securities affairs</i>
Name	Pang Jianhui	Huang Xuezhen
Address	45 Sha Mian North Street, Guangzhou, Guangdong, the PRC	
Telephone	(8620)8121 8084	(8620)8121 8119
Fax	(8620)8121 6408	
E-mail	<a href="mailto:pangjh@gpc.com.cn">pangjh@gpc.com.cn</a>	<a href="mailto:huangxz@gpc.com.cn">huangxz@gpc.com.cn</a>

### 3. FINANCIAL DATA AND INDICATORS

#### 3.1 Principal financial data

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)	Changes as compared with 2007 (%)	2006 <i>(RMB'000)</i> (Restated)
Income from operations	<b>3,527,424</b>	11,937,487	(70.45)	10,106,951
Total profit	<b>202,179</b>	465,114	(56.53)	377,921
Net profit attributable to the shareholders of the Company	<b>182,496</b>	335,094	(45.54)	233,936
Net profit attributable to the shareholders of the Company after deducting non-operating items	<b>87,698</b>	292,687	(70.04)	233,992
Net cash inflows from operating activities	<b>6,103</b>	269,396	(97.73)	14,933

	<b>As at</b> <b>31 December</b> <b>2008</b> <i>(RMB'000)</i>	As at 31 December 2007 <i>(RMB'000)</i> (Restated)	Changes as compared with 31 December 2007 (%)	As at 31 December 2006 <i>(RMB'000)</i> (Restated)
Total assets	<b>4,130,904</b>	6,165,542	(33.00)	5,453,318
Equity holders' funds	<b>3,124,842</b>	3,060,348	2.11	2,790,398

1. The above financial data and indicators are computed based on the consolidated financial statements.
2. Pursuant to the requirements of Accounting Standard for Business Enterprises Interpretation No. 2 promulgated by the Ministry of Finance in August 2008, joint ventures including Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji") and Guangzhou Pharmaceuticals Corporation ("GP Corp.") were accounted for using equity method by the Group in 2008, and changes in the relevant data in the consolidated financial statements were comparatively significant. The operating results of Wang Lao Ji and GP Corp. for 2008 are set out in the "Report of the Directors" of the annual report.

### 3.2 Principal financial indicators

	2008	2007 (Restated)	Changes as compared with 2007 (%)	2006 (Restated)
Basic earnings per share (RMB)	<b>0.225</b>	0.413	(45.54)	0.288
Diluted earnings per share (RMB)	<b>0.225</b>	0.413	(45.54)	0.288
Basic earnings per share after deducting non-operating items (RMB)	<b>0.108</b>	0.361	(70.04)	0.289
Fully diluted return on net assets (%)	<b>5.84</b>	10.95	With a decrease of 5.11 percentage points	8.38
Weighted average return on net assets (%)	<b>5.88</b>	11.46	With a decrease of 5.58 percentage points	8.66
Ratio of fully diluted return on net assets after deducting non-operating items (%)	<b>2.81</b>	9.56	With a decrease of 6.75 percentage points	8.39
Weighted average return on net assets after deducting non-operating items (%)	<b>2.83</b>	10.01	With a decrease of 7.18 percentage points	8.66
Net cash flow from operating activities per share (RMB)	<b>0.01</b>	0.33	(97.73)	0.02
	<b>As at 31 December 2008</b>	As at 31 December 2007 (Restated)	Changes as compared with 31 December 2007 (%)	As at 31 December 2006 (Restated)
Net assets per share attributable to the shareholders of the Company (RMB)	<b>3.85</b>	3.77	2.11	3.44

**Non-operating items** Applicable     Not applicable

<b>Items</b>	<b>Amount</b> <i>(RMB'000)</i>
Gain/(Loss) on disposal of non-current assets	18,795
Government subsidies recognized as gain/(loss)	18,385
Capital use fee received from non-financial enterprises recognized as gain/(loss)	3,976
Gain/(loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	(2,503)
Write back of provision for impairment of trade receivables undergoing independent impairment review	531
Gain/(Loss) received from external custodian loans	7,571
Gain on subscription of new shares	
Gain/(Loss) arising from contingent items unrelated to the normal operating activities of the Company	49,848
Other non-operating income and expenses excluding the above items	8,564
Other gain/loss items within the definition of non-operating gain/loss	-
Income tax effect	(7,720)
Effect on minority interest	(2,649)
	<hr/>
Total	<b>94,798</b>

## Items measured at fair value

Applicable     Not applicable

Items	The balance at the beginning of the Reporting Period <i>(RMB'000)</i>	The balance at the end of the Reporting Period <i>(RMB'000)</i>	Changes of accumulated fair value recognized as current gain/(loss) <i>(RMB'000)</i>	Provision for impairment for the Reporting Period <i>(RMB'000)</i>	Balance as at the end of Reporting the Period <i>(RMB'000)</i>
<b>Financial Assets</b>					
Include:					
1. Financial assets measured at fair value with its changes recognized as current gain/(loss) include: Derivative financial assets	5,511	(2,503)	–	–	3,008
2. Financial assets available for sale	5,666	–	2,120	–	1,256
Sub-total of financial assets	11,177	(2,503)	2,120	–	4,264
<b>Financial liabilities</b>	–	–	–	–	–
<b>Investment real estates</b>	–	–	–	–	–
<b>Biological assets for production</b>	–	–	–	–	–
<b>Total</b>	<u>11,177</u>	<u>(2,503)</u>	<u>2,120</u>	<u>–</u>	<u>4,264</u>

### 3.3 Reconciliation between the accounts prepared in accordance with the PRC Accounting Standards and HKFRS

Applicable     Not applicable

	As at 31 December 2008 <i>(RMB'000)</i>	As at 31 December 2007 <i>(RMB'000)</i> (Restated)
<b>Net Assets under PRC Accounting Standards</b>	<b>3,124,842</b>	3,060,348
Intangible assets capitalised	–	16,669
Difference arising from fixed assets revaluation during the reorganization	<b>118,761</b>	123,728
Deferred government grants	<b>(2,387)</b>	(2,833)
Difference in minority interest	<b>(14,219)</b>	(13,989)
Revaluation of investment properties	<b>64,733</b>	19,634
Provision for deferred tax liabilities arising from revaluation	<b>(46,425)</b>	(35,536)
<b>Capital and reserves attributable to equity holders of the Company under HKFRS</b>	<b><u>3,245,305</u></b>	<b><u>3,168,021</u></b>
	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
<b>Net profit under PRC Accounting Standards</b>	<b>182,496</b>	335,094
Amortisation of intangible assests	<b>(16,669)</b>	(10,337)
Additional depreciation on revalued fixed assets	<b>(4,967)</b>	(2,819)
Government grants recognized as deferred income	<b>446</b>	446
Provision for deferred taxation	<b>(6,402)</b>	652
Difference in minority interest	<b>(230)</b>	(294)
Difference arising from investment properties in cost model and fair value model	<b>27,155</b>	1,327
Appropriation of staff bonus and welfare fund charged as expenses	–	(3,726)
<b>Profit attributable to equity holders of the Company under HKFRS</b>	<b><u>181,829</u></b>	<b><u>320,343</u></b>

### 3.4 Accounts prepared in accordance with HKFRS

Items	2008	2007 (Restated)	2006 (Restated)	2005 (Restated)	2004
Revenue (RMB'000)	<b>3,450,586</b>	11,873,514	10,049,019	8,784,537	7,709,565
Profit before income tax (RMB'000)	<b>208,552</b>	449,710	349,155	315,493	161,675
Profit attributable to equity holders of the Company (RMB'000)	<b>181,829</b>	320,343	218,067	197,804	42,829
Earnings per share (RMB)	<b>0.22</b>	0.40	0.27	0.24	0.05
	<b>As at</b>	As at	As at	As at	As at
	<b>31 December</b>	31 December	31 December	31 December	31 December
<b>Items</b>	<b>2008</b>	2007	2006	2005	2004
		(Restated)	(Restated)	(Restated)	
Total assets (RMB'000)	<b>4,354,664</b>	6,351,721	5,610,740	5,293,769	5,413,438
Total liabilities (RMB'000)	<b>993,899</b>	2,934,329	2,530,360	2,368,539	2,655,559
Capital and reserves attributable to equity holders of the Company (RMB'000)	<b>3,245,305</b>	3,168,021	2,897,389	2,737,123	2,545,592
Capital and reserves per share attributable to equity holders of the Company (RMB)	<b>4.00</b>	3.91	3.57	3.36	3.14
Return on capital and reserves attributable to equity holders of the Company (%)	<b>5.60</b>	10.11	7.53	7.26	1.68
Ratio of capital and reserves attributable to equity holders of the Company to total assets (%)	<b>74.52</b>	49.88	51.64	51.70	47.02
Gearing ratio (%) (Note)	<b>22.82</b>	46.20	45.10	44.75	49.05

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



## 4. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### 4.1 Changes in share capital

#### 4.1.1 Movement in share capital and its components

	Before change		Change				After change		
	Number of shares (share)	Percentage (%)	New issues (share)	Bonus issues (share)	Reserves capitalized (share)	Others (listing and trading of tradable shares) with selling restrictions (share)	Sub-total (share)	Number of shares (share)	Percentage (%)
<b>I. Shares with selling restrictions</b>									
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by State-owned legal entities	362,948,509	44.76	-	-	-	(20,747,000)	(20,747,000)	342,201,509	42.20
3. Other domestic shares	65,110,000	8.03	-	-	-	(19,798,000)	(19,798,000)	45,312,000	5.59
Include: Shares held by domestic legal entities	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Shares held by foreign capital									
Include: Shares held by overseas legal entities	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
Total shares with selling restrictions	428,058,509	52.79	-	-	-	(40,545,000)	(40,545,000)	387,513,509	47.79
<b>II. Shares without selling restrictions</b>									
1. Reminbi-denominated ordinary shares	162,941,491	20.09	-	-	-	40,545,000	40,545,000	203,486,491	25.09
2. Domestically listed foreign capital shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign capital shares	219,900,000	27.12	-	-	-	-	-	219,900,000	27.12
4. Others	-	-	-	-	-	-	-	-	-
Total shares without selling restrictions	382,841,491	47.21	-	-	-	40,545,000	40,545,000	423,386,491	52.21
<b>III. Total shares</b>	<b>810,900,000</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>810,900,000</b>	<b>100.00</b>

On 24 April 2008, among the shares of GPC held by the controlling shareholder of the Company, namely Guangzhou Pharmaceutical Holdings Limited (“GPHL”), 23,711,737 shares with selling restrictions became tradable shares. In addition, 4,030,000 shares, 3,321,263 shares, 7,707,800 shares, 284,200 shares and 1,490,000 shares of GPC held respectively by Guangzhou Xinjiao Rural Credit Cooperative (“Xinjiao Cooperative”), Guangzhou Xinfeng Rural Credit Cooperative (“Xinfeng Cooperative”), Guangzhou Beicheng Rural Credit Cooperative (“Beicheng Cooperative”), Guangzhou Baiyun Rural Credit Cooperative (“Baiyun Cooperative”), Guangzhou Huangshi Rural Credit Cooperative (“Huangshi Cooperative”), which were shares with selling restrictions, became tradable shares on the same day.

#### 4.1.2 Changes of shares with selling restrictions

Shareholder	Number of shares with selling restrictions before the change (share)	Number of shares with selling restrictions involved (share)	Number of shares with selling restrictions after the changes (share)	Reasons of the changes	Date of the changes
GPHL	362,948,509	2,964,737	365,913,246	Recovery of advanced share reform consideration	15 April 2008
	365,913,246	(23,711,737)	342,201,509	Listing and trading of shares with selling restriction	24 April 2008
Xinjiao Cooperative	4,220,000	(190,000)	4,030,000	Repayment of advanced share reform consideration	15 April 2008
	4,030,000	(4,030,000)	–	Listing and trade of shares with selling restriction	24 April 2008
Xinfeng Cooperative	3,480,000	(158,737)	3,321,263	Repayment of advanced share reform consideration	15 April 2008
	3,321,263	(3,321,263)	–	Listing and trading of shares with selling restrictions	24 April 2008
Beicheng Cooperative	46,670,000	(2,128,000)	44,542,000	Repayment of advanced share reform consideration	15 April 2008
	44,542,000	(7,707,800)	36,834,200	Listing and trading of shares with selling restrictions	24 April 2008
Baiyun Cooperative	1,720,000	(78,000)	1,642,000	Repayment of advanced share reform consideration	15 April 2008
	1,642,000	(284,200)	1,357,800	Listing and trade of shares with selling restriction	24 April 2008
Huangshi Cooperative	9,020,000	(410,000)	8,610,000	Repayment of advanced share reform consideration	15 April 2008
	8,610,000	(1,490,000)	7,120,000	Listing and trading of shares with selling restrictions	24 April 2008
Total	<u>428,058,000</u>	<u>40,545,000</u>	<u>387,513,509</u>		

## 4.2 The Company's top ten shareholders and the top ten shareholders holding shares without selling restrictions and their shareholdings

**Total number of shareholders as at the end  
of the Reporting Period**

42,473

**Shareholdings of the Company's top ten shareholders as at the end of the Reporting Period**

Shareholders	Nature of shares	Number of shares held as at the end of the Reporting Period <i>(share)</i>	Approximate % of total issued share capital <i>(%)</i>	Number of shares with selling restrictions <i>(share)</i>	Number of pledged or locked shares <i>(share)</i>
GPHL	Domestic shares	390,833,391	48.20	342,201,509	Nil
HKSCC Nominees Limited	H shares	219,307,299	27.04	Nil	Unknown
Beicheng Cooperative	Domestic shares	44,542,000	5.49	36,834,200	Nil
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	Domestic shares	12,560,070	1.55	Nil	Unknown
Agricultural Bank of China – Zhongyou Core Prime Equity Securities Investment Fund	Domestic shares	10,297,477	1.27	Nil	Unknown
Huangshi Cooperative	Domestic shares	8,524,000	1.05	7,120,000	Nil
Weng Shaoqing	Domestic shares	4,000,000	0.49	Nil	Unknown
China Construction Bank – Hua Bao Industrial Featured Equity Securities Investment Fund	Domestic shares	3,605,020	0.44	Nil	Unknown
Baiyun Cooperative	Domestic shares	1,642,000	0.20	1,357,800	Nil
ICBC – Nangfang Longyuan Production Themed Equity Securities Investment Fund	Domestic shares	1,636,016	0.20	Nil	Unknown

## The Company's top ten shareholders holding shares without selling restrictions

Shareholder	Number of shares without selling restrictions held (share)	Nature of shares
HKSCC Nominees Limited	219,307,299	H shares
GPHL	48,631,882	Domestic shares
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	12,560,070	Domestic shares
Agricultural Bank of China – Zhongyou Core Prime Equity Securities Investment Fund	10,297,477	Domestic shares
Beicheng Cooperative	7,707,800	Domestic shares
Weng Shaoqing	4,000,000	Domestic shares
China Construction Bank – Hua Bao Industrial Featured Equity Securities Investment Fund	3,605,020	Domestic shares
ICBC – Nangfang Longyuan Production Themed Equity Securities Investment Fund	1,636,016	Domestic shares
Bank of Communication – HSBC Jintrust Dynamic Strategy Hybrid Securities Investment Funds	1,564,158	Domestic shares
Huangshi Cooperative	1,404,000	Domestic shares

### *Explanations:*

1. During the Reporting Period, GPHL purchased 500,000 A shares of the Company through the secondary market, representing 0.06% of the total issued share capital of the Company.
2. According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
3. Among the top ten shareholders of the Company, GPHL was not connected with the other nine shareholders and were not persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”. Except for the shareholding investment rights of Beicheng Cooperative, Huangshi Cooperative and Baiyun Cooperative in the Company belonging to Guangzhou Rural Credit Cooperative Union, the Company was not aware of any connection among other shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.
4. Among the top ten shareholders holding shares without selling restrictions of the Company, except for the shareholding investment rights of Beicheng Cooperative and, Huangshi Cooperative in the Company belonging to Guangzhou Rural Credit Cooperative Union, the Company was not aware of any connection among other shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

### 4.3 Information of the controlling shareholder and its beneficial owner of the Company

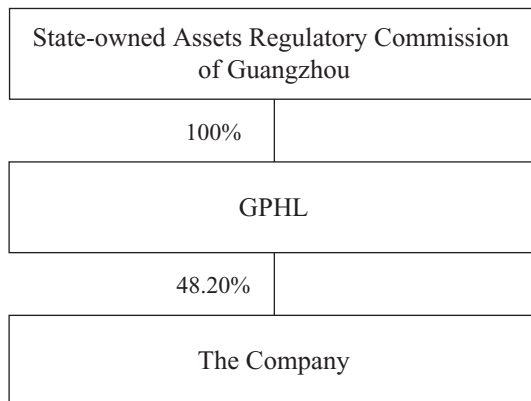
#### 4.3.1 Information of the changes in the controlling shareholder and its beneficial owner of the Company

Applicable  Not applicable

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

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
% of shares held	48.20%
Legal representative	Yang Rongming
Date of establishment	7 August 1996
Registered capital	RMB1,007.7 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.

#### 4.3.3 Relationship between the Company and its beneficial owner as at the end of the Reporting Period



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

#### 4.5 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.

#### 4.6 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 AND SENIOR MANAGEMENT

### 5.1 Change of present directors', supervisors' and senior management's interests in shares of the Company and their emoluments

Name	Position	Gender	Age	Shares held as at the beginning of the Year (share)	Shares held as at the end of the Year (share)	Reason for change	Total emoluments received from the Group during the Reporting Period ('000)	Share options granted in the Reporting Period				Whether emoluments were received from the Company's shareholder or connected parties
								Number of exercisable shares (share)	Number of exercised shares	Exercise price	Market price of shares as at the end of the Reporting Period	
Yang Rongming	Chairman	Male	55	0	0	–	–	Nil				Yes
Shi Shaobin	Executive Director, General Manager	Male	41	0	0	–	479	Nil				No
Feng Zansheng	Executive Director	Male	59	0	0	–	–	Nil				Yes
Wong Hin Wing	Independent Non-executive Director	Male	46	0	0	–	80	Nil				No
Liu Jinxiang	Independent Non-executive Director	Male	68	0	0	–	80	Nil				No
Li Shanmin	Independent Non-executive Director	Male	46	0	0	–	80	Nil				No
Zhang Yonghua	Independent Non-executive Director	Male	50	0	0	–	80	Nil				No
Yang Xiuwei	Chairlady of the Supervisory Committee	Female	50	0	0	–	–	Nil				Yes
Wu Quan	Supervisor	Male	52	0	0	–	319	Nil				No
Zhong Yugan	Supervisor	Male	53	0	0	–	30	Nil				No
Su Guangfeng	Deputy General Manager	Male	44	0	0	–	425	Nil				No
Chen Binhua	Financial Controller	Male	43	6,240	6,240	–	390	Nil				No
Pang Jianhui	Secretary to the Board (appointed on 30 July 2008)	Male	36	0	0	–	167	Nil				No
He Shuhua	Deputy General Manager & Secretary to the Board (resigned from the above positions on 30 June 2008 and 30 July 2008 respectively)	Male	52	36,010	36,010	–	304	Nil				No
Total	/	/	/	/	/	/	2,434	/				/

#### Notes:

1. Directors Mr. Yang Rongming, Mr. Shi Shaobin, Mr. Feng Zansheng, Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua shall serve, from 15 June 2007, the date of their respective appointments, to the date when members of the new session of the Board are elected.
2. Supervisors Ms. Yang Xiuwei, Mr. Wu Quan and Mr. Zhong Yugan shall serve, from 15 June 2007, the date of their respective appointments, to the date when members of the new session of the Supervisory Committee are elected.
3. Mr. Pang Jianhui has a term of office commencing from 30 July 2008 to the date when members of the new session of the Board are elected.

## 6. REPORT OF THE DIRECTORS

### 6.1 Management discussion and analysis

#### *6.1.1 Business scope and analysis of operations*

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.

#### *6.1.2 Analysis of operating results*

##### *(1) Operation review*

In 2008, the macro economy in China faced with the most serious challenges in recent years. The fluctuation in price of energy, raw materials and other commodities, the more stringent new enterprise environment protection requirements, the increase in labour cost following the implementation of the new Labour Contract Law, tightening of State monetary policy, the unpredicted snow disaster, earthquake and other natural disasters, increasingly fierce market competition, further spread of the international financial crisis and the diminishing total social demand so caused have certain impact on the operating results of the Group.

The Company has always emphasised on risk control, and strived for the improvement of operation quality. The Group concentrated on marketing and distribution based on the market changes in 2008, the marketing and distribution strategies and models have been adjusted, with distribution channels streamlined, inventory turnover accelerated, and at the same time fundamental management has been enhanced to ensure its smooth operations.

According to the PRC Accounting Standards, the Group recorded an income from principal activities of RMB3,450,586,000 for the Reporting Period, down 70.94% as compared with the previous year. The profit before tax amounted to RMB202,179,000, representing a decrease of 56.53% over the previous year and net profit amounted to RMB182,496,000, representing a decrease of 45.54% over the previous year.

According to HKFRS, the Group recorded turnover of RMB3,450,586,000 for the Reporting Period, down 70.94% as compared with the previous year. Profit before income tax amounted to RMB208,552,000, representing a decrease of 53.63% over the previous year and profit attributable to equity holders of the Company amounted to RMB181,829,000, representing a decrease of 43.24% over the previous year.

Compared with 2007, the operating results of the Group dropped significantly mainly due to: (1) after the GP Corp. joint venture project under the Company was completed at the beginning of 2008, the proportion of its equity held by the Company declined to 50%; Pursuant to Accounting Standard for Business Enterprises Interpretation No. 2 issued by the Ministry of Finance on August 2008, GP Corp. was no longer included in the scope of consolidation of the Group, and was computed in the equity accounting method, thus resulted in significant impact on the principal business income and profit of the Group. GP Corp. achieved a sales revenue of RMB9,854,290,000 and profit before tax of RMB125,675,000 for 2008. (2) during 2008, energy cost and raw material prices continued to fluctuate due to domestic inflation, resulting in further increase in production and sales costs of the Company, with a lower manufacturing product profit margin compared with the previous year; (3) The Group has adjusted the original marketing and distribution strategies and models based on the market changes since the second quarter of 2008, which have certain impact on product sales of the Company. It is expected that such adjustments will take time to complete; (4) the spread of the financial crisis since the second half of 2008 caused further deterioration in the economic environment in China and around the world, thus resulted in a significant fall in total social demand. Such fall in total social demand and increasing competition in the domestic medicine market have certain impact on product sales of the Company.



A breakdown of the operational results of the overall and principal operations of the Group for 2008 is set out as follows:

*Prepared in accordance with the PRC Accounting Standards*

<b>Item</b>	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)	Growth/ (Decrease) (YoY) (%)
<b>Incom from principal operations</b>	<b>3,450,586</b>	11,873,514	(70.94)
Include: Manufacturing	<b>1,835,223</b>	2,371,678	(22.62)
Trading	<b>1,615,363</b>	9,501,836	(83.00)
<b>Operating profit</b>	<b>176,043</b>	454,413	(61.26)
Include: Manufacturing	<b>171,231</b>	345,876	(50.49)
Trading	<b>4,812</b>	108,537	(95.57)
<b>Total profit</b>	<b>202,179</b>	465,114	(56.53)
Include: Manufacturing	<b>187,191</b>	351,393	(46.73)
Trading	<b>14,988</b>	113,721	(86.82)
<b>Net profit</b>	<b>182,496</b>	335,094	(45.54)
Include: Manufacturing	<b>165,000</b>	267,537	(38.33)
Trading	<b>17,496</b>	67,557	(74.10)

*Prepared in accordance with HKFRS*

<b>Turnover</b>	<b>3,450,586</b>	11,873,514	(70.94)
Include: Manufacturing	<b>1,835,223</b>	2,371,678	(22.62)
Trading	<b>1,615,363</b>	9,501,836	(83.00)
<b>Profit before income tax</b>	<b>208,552</b>	449,710	(53.63)
Include: Manufacturing	<b>191,689</b>	335,160	(42.81)
Trading	<b>16,863</b>	114,550	(85.28)
<b>Profit attributable to equity holders of the Company</b>	<b>181,829</b>	320,343	(43.24)
Include: Manufacturing	<b>163,079</b>	262,352	(37.84)
Trading	<b>18,750</b>	57,991	(67.67)

During the Reporting Period, the revenue from principal operations of the Group's manufacturing operations was RMB1,835,223,000, a decrease of 22.62% compared with the same period of last year. Sales of some key products have not reached the expected target and have shown different extents of decrease. The Group adjusted operation strategies and distribution strategies based on the market changes, and took various measures to cope with market changes: Firstly, it enhanced the management of dealers, streamlined the original sales channels, broadened distribution channels, took various measures to maintain and control market prices of products, at the same time, it enhanced development of main stream chain medicine stores and the third terminal, and expanded end retail sales network. In November 2008, some manufacturing enterprises under the Group entered into strategic cooperation agreements with some A-grade hospitals in Guangzhou City, thus significantly enhanced the influence of the Group's products in the hospital market. Secondly, it encouraged distribution innovation with great efforts, strived for expansion of market sales, and promoted market development of products of the Company through the improvement of the evaluation indicator system for market innovation of subsidiary enterprises, the active implementation of brand strategies, the assistance in enrolment in distribution clubs, and the opening of special sales counters, among others. Thirdly, it continued the enhancement of development effort of major markets in other provinces, consolidated market share, developed markets thoroughly, and enhanced brand awareness and reputation.

During the Reporting Period, the Group persisted in carrying out science and technology innovation, enhanced investment in scientific research, accelerated the work in technological R&D and developed new points for business growth. Guangzhou Baidi Bio-technology Co., Ltd. ("Guangzhou Bai Di"), a subsidiary of the Company, was granted production approval for Rabies Bacterin, and its production workshop has passed the national GMP accreditation. "One Chinese medicine for the treatment of hyperplasia of mammary glands and its preparation method" and "One Chinese medicine for the treatment of internal hemorrhage and its preparation method" of Guangzhou Zhong Yi Pharmaceutical Co., Ltd. ("Zhong Yi"), and "Hua Tuo Zai Zao Wan for the preparation of medicine to prevent heart disease of blood deficiency" of Guangzhou Qi Xing Pharmaceutical Co., Ltd. ("Qi Xing") were all awarded State invention patents. Qi Xing and Zhong Yi were chosen as the first batch of pilot enterprises for the promotion of intellectual property works in leading import and export enterprises in Guangzhou City, and Zhong Yi was also chosen as an intellectual property pilot enterprise of Guangdong Province. One of the first batch intellectual property strategic pilot enterprises, its Xiao Ke Wan invention patent was awarded the model project for implementation of patent technology in Guangdong Province in 2008.

During the Reporting Period, the Group was actively engaged in the promotion of certification of new and high technology enterprises. At present, Zhong Yi, Guangzhou Chen Li Ji Pharmaceutical Factory (“Chen Li Ji”), Guangzhou Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”), Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Qi Xing, Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. (“Pan Gao Shou”) and Wang Lao Ji, a total of seven enterprises applied for the certification of new and high technology enterprises in Guangdong Province, and were given the certificate of new and high technology enterprises.

In response to the appeals for a green economy and that the central government is constructing an environmental-friendly and conservation-minded society, which have a main content of construction an ecological civilization, during the Reporting Period, the Group focused on environmental protection works, actively implemented the “Cleaner Production Law of the People’s Republic of China” and “Energy Conservation Law of the People’s Republic of China”, enhanced the efficiency of resources and energy, lowered production costs and reduced pollution, achieved emission standard of noise, smoke and sewage (the “three pollutants”) and controlled the total emission of pollutants within the standard set by the Guangzhou Environmental Protection Management Bureau and performed the social obligations in protecting the environment so as to achieve sustainable development.

During the Reporting Period, as to the trading operations, firstly we steadily promoted our joint venture operation and restructuring, and enhanced our core enterprise competitiveness. With the success made by the joint venture, GP Corp. developed actively, overcame the influence of snow disaster, earthquake, storms, among others, and maintained steady growth in sales. Guangzhou Chinese Medicine Corporation was restructured as a company with limited liabilities, and was renamed “Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (“Cai Zhi Lin”)”. Such opportunity enabled Cai Zhi Lin to combine its brand resources, enhance brand value, and expand the social influence of Cai Zhi Lin. Secondly, we strived to develop neighbouring markets of the Province, smoothed sales channels, and ensured the reasonable and sustainable development of product structure in markets of other provinces. Since the beginning of this year, Cai Zhi Lin has successfully developed shopping mall supermarket networks like Watson’s (nationwide) and Manning (nationwide), among others, with significant achievements in network development. Thirdly, we implemented the strategy of brand cultivation, promoted brand management expertise, provided quality brand management services, maintained diversity and variety of products. Fourthly, we captured development opportunities to deepen the work of hospital bidding in Guangdong Province, performed well in the despatch work of community medicine, and continued to develop hospital sales business.

As at 31 December 2008, the Group had 96 retail chain pharmacy outlets, including 66 “Cai Zhi Lin” which specialized in traditional Chinese medicines, 27 “Jian Min” which specialized in chemical medicines, one pharmacy named Ying Bang and two other retail chain pharmacy outlets.

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

Applicable     Not applicable

Pursuant to Accounting Standard for Business Enterprises Interpretation No. 2 issued by the Ministry of Finance in August 2008, joint ventures should adopt the equity accounting method. Therefore, in 2008, the Group adopted the equity accounting method for joint ventures including Wang Lao Ji and GP Corp., thus resulted in impact on the changes in assets, liabilities and revenue in the consolidated financial statements of the Group. In 2008, Wang Lao Ji achieved a sales revenue of RMB1,289,363,000, representing an increase of 32.03% compared with the previous year; total profit amounted RMB197,391,000, representing an increase of 57.53% compared with the previous year; net profit was RMB172,584,000, representing an increase of 56.13% compared with the previous year. GP Corp. achieved a sales revenue of RMB9,854,290,000, representing an increase of 15.52% compared with the previous year; total profit amounted RMB125,675,000, representing an increase of 13.14% compared with the previous year; net profit was RMB87,929,000, representing an increase of 28.70% compared with the previous year.

**6.2 An analysis of the Group's principal activities and major products for the Reporting Period is set out as follows:**

<b>Principal activities or major products</b>	<b>Revenue from principal operations (RMB'000)</b>	<b>Cost of principal operations (RMB'000)</b>	<b>Operating profit margin (%)</b>	<b>Change in revenue from operations as compared with 2007 (%)</b>	<b>Change in costs from operations as compared with 2007 (%)</b>	<b>Change in operating profit as compared with last year (percentage point)</b>
<i>Principal activities:</i>						
Manufacturing	1,835,223	972,821	46.13	(22.62)	(15.26)	(4.50)
Trading	1,615,363	1,473,800	8.70	(83.00)	(83.51)	2.85
<i>Products</i>						
Heat clearing and antitoxic medicine	241,196	137,336	45.74	(34.07)	(29.56)	(3.54)
Diabetic medicine	433,763	153,941	65.03	(17.66)	(14.06)	(1.39)
Cough and phlegm	247,793	120,136	54.49	(24.17)	(17.46)	(3.84)
Arthritic medicine	191,161	91,490	55.29	(36.99)	(31.06)	(4.01)
Gastric medicine	50,046	24,950	54.95	(31.12)	(22.09)	(5.67)
Other products	671,264	444,968	39.31	(13.52)	(4.02)	(6.46)

The total amount of sale of products from the Group to its controlling shareholder together with its connected parties was RMB448,125,000 during the Reporting Period.

### 6.3 Geographical analysis of principal business

Region	Revenue from principal operations (RMB'000)	Manufacturing		Income from principal operations (RMB'000)	Trading		Income from principal operations (RMB'000)	Total	
		Increase/ decrease over the same period of last year (%)	% of income from the manufacturing operations (%)		Increase/ decrease over the same period of last year (%)	% of income from the trading operations (%)		Increase/ decrease over the same period of last year (%)	% of total income from principal operations (%)
Southern China	1,131,747	(24.48)	61.67	1,457,784	(82.40)	90.24	2,589,534	(73.53)	75.04
Eastern China	248,624	(33.77)	13.55	60,544	(84.94)	3.75	309,168	(60.52)	8.96
Northern China	212,265	28.63	11.57	1,526	(99.06)	0.09	213,791	(34.75)	6.20
North-Eastern China	79,864	(36.28)	4.35	–	–	–	79,864	(65.07)	2.31
South-Western China	106,834	(5.75)	5.82	5	100.00	–	106,839	(76.03)	3.10
North-Western China	55,712	(22.23)	3.03	212	(99.80)	0.01	55,924	(69.02)	1.62
Exports	177	(98.93)	0.01	95,292	(11.89)	5.90	95,469	(23.40)	2.77
Total	<u>1,835,223</u>	<u>(22.62)</u>	<u>100.00</u>	<u>1,615,363</u>	<u>(83.00)</u>	<u>100.00</u>	<u>3,450,586</u>	<u>(70.94)</u>	<u>100.00</u>

#### 6.4 Details of operation of the Company's subordinated enterprises for the Year

Name of enterprises	Percentage of shares directly held by the Company (%)	Revenue from principal operation (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	189,037	(67,495)	(59,126)
Zhong Yi	100.00	562,426	40,220	29,229
Chen Li Ji	100.00	196,584	25,885	19,316
Qi Xing	75.00	227,725	(19,416)	(19,485)
Jing Xiu Tang	88.40	188,115	17,564	13,481
Pan Gao Shou	87.77	248,527	11,999	6,683
Guangzhou Huan Ye Medicine Co., Ltd. ("Guangzhou Huan Ye")	100.00	50,077	34	34
Guangxi Ying Kang Pharmaceutical Co., Ltd.	51.00	28,105	(1,136)	(1,136)
Guangzhou Bai Di	97.26	961	(22,607)	(22,607)
Guangzhou Han Fang Modern Chinese Medicine Research and Development CO., Ltd ("Guangzhou Han Fang")	96.93	20,021	(14,532)	(14,532)
Cai Zhi Lin Pharmaceutical	100.00	1,399,224	10,038	13,457
Pharmaceutical Import & Export Corporation	100.00	296,126	2,617	1,867
(2) Branches				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	–	511,477	4,055	4,055
(3) Joint ventures				
Wang Lao Ji (Note i)	48.05	1,289,363	197,391	172,584
GP Corp. (Note ii)	50.00	9,854,290	125,675	87,929

Notes:

(i) The result of Wang Lao Ji was stated in full amount in the above table. In 2008, Wang Lao Ji continued with a good growth momentum, achieved a sales revenue of RMB1,289,363,000, representing an increase of 32.03% compared with the previous year; total profit amounted RMB197,391,000, representing an increase of 57.53% compared with the previous year; net profit was RMB172,584,000, representing an increase of 56.13% compared with the previous year. During the Report Period, Wang Lao Ji Qing Liang Cha, Xiao Er Qi Xing Cha, Bao Ji Kou Fu Ye and Wang Lao Ji Run Hou Tang enjoyed significant increases of 45.02%, 28.62%, 28.66% and 71.20% respectively compared with the previous year.

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

## **6.5 Use of proceeds from issue of A shares**

Applicable  Not applicable

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

Change in projects

Applicable  Not applicable

## **6.6 Proceeds not from issue of A shares**

Applicable  Not applicable

## **6.7 The explanation of the Company's Board on the qualified auditors' report issued by the auditors**

Applicable  Not applicable

## **6.8 Proposed scheme of profit distribution and increase in share capital by transfer from capital reserve**

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

The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with HKFRS and the amount determined in accordance with the PRC Accounting Standards. The Board recommended a final dividend of RMB0.04 per share (including withholding tax for A shares) for the year ended 31 December 2008 (2007: RMB0.124 per share). The proposed final dividend will be submitted to the forthcoming 2008 annual general meeting for consideration and approval (the date and matters to be considered at the 2008 annual general meeting are to be announced).

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

Profit of the Company in the Reporting Period without proposing scheme of cash profit distribution

Applicable  Not applicable



## **6.9 Liquidity**

As at 31 December 2008, the current ratio of the Group was 2.51 (31 December 2007: 1.59), and its quick ratio was 1.67 (31 December 2007: 1.09). Accounts receivable turnover rate was 10.16 times, representing an increase of 9.39% as compared with that of 2007. Inventory turnover rate was 3.85 times, representing a decrease of 49.04% as compared with 2007.

## **6.10 Financial resources**

As at 31 December 2008, cash and cash equivalents of the Group amounted to RMB365,858,000 (31 December 2007: 585,046,000), out of which approximately 98.75% and 1.25% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2008, the Group had bank borrowings of RMB273,275,000 in total, among which, RMB243,275,000 were short-term borrowings (31 December 2007: RMB968,401,000).

## **6.11 Capital structure**

As at 31 December 2008, the Group's current liabilities amounted to RMB751,411,000 (31 December 2007: RMB2,749,660,000), representing a decrease of 72.67% over that of 2007, and its long-term liabilities was RMB154,582,000 (31 December 2007: RMB121,671,000), with an increase of 27.05% as compared with 2007. The shareholders' funds amounted to RMB3,124,842,000 (31 December 2007: RMB3,060,348,000), with an increase of 2.11% as compared with 2007.

## **6.12 Capital expenditure**

The Group expects the capital expenditure for 2009 to amount to approximately RMB146 million (2008: RMB187 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

## **6.13 Gearing ratio**

As at 31 December 2008, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 21.93% with a decrease of 24.64 percentage points as compared with 2007 (as at 31 December 2007: 46.57%).

## **6.14 Exposure to fluctuations in exchange rates**

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

## 6.15 Main cash resources and applications

As at 31 December 2008, cash and cash equivalents of the Group amounted to RMB365,858,000, with a decrease of RMB219,188,000 as compared with 2007. The net cash inflow derived from operating activities amounted to RMB6,103,000, with a decrease of RMB263,292,000 as compared with 2007, which was mainly attributable to the Group's active expansion in sales and strengthening management in accounts receivable.

## 6.16 Contingent liabilities

As at 31 December 2008, the Group has no significant contingent liabilities.

## 6.17 Charge on the Group's assets

At 31 December 2008, the Group has no secured fixed assets.

## 6.18 Employees of the Group

As at 31 December 2008, the number of employees on the payroll register of the Group was 8,022, including:

	<b>No. of employees</b>
Production and supporting staff	2,949
Sales personnel	2,032
Technical, research and engineering staff	1,552
Finance and statistics staff	308
Other administrative staff	1,181

128 of the employees were holders of a master degree and 1,723 were holders of a bachelor degree. The number of retirees was 5,624. The total salary payment for the Year was approximately RMB469 million.

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

## 6.19 Development outlook

The State Council has basically passed the Opinions on Deepening the Reform on Medical and Hygiene System and the 2009-2011 Implementation Proposal on Deepening the Reform on Medical and Hygiene System on 21 January 2009. According to the proposed new reform on medical system, it is expected that government authorities at various levels will inject RMB850 billion for five basic reforms from 2009 to 2011. Following the gradual implementation of the medical reforms, the government expenditure on medical protection will increase annually in the future and the consumption of pharmaceutical products will increase as a result. Launch of the new reform on medical system has provided opportunities for development of the pharmaceutical market.

Further expansion of the domestic pharmaceutical market, rapid development of modern Chinese medicine and biological medicine, rapid growth of the non-prescription medicine market, close attention paid by Guangdong and Guangzhou governments to the development of Chinese medicine industry, etc., resulted from the gradual implementation of the new reform on medical system will bring development opportunities to the Group's business. However, factors such as the continued impact of the international financial crisis on domestic macro economy, the increasingly fierce competition in the domestic pharmaceutical industry, the policy risks caused by the reform on medical system, the price adjustment of pharmaceutical products and the fluctuating prices of energy and raw materials will still have certain impact on the Group's business development in the future.

The business plans for 2009 mainly include:

1. To continuously strengthen the innovation of marketing, accelerate adjustment of marketing strategies and models, further smooth the sales channels and enhance the quality of business operations. Firstly, to accelerate adjustment of marketing strategies, achieve innovation of marketing models and approach, strengthen the credit control and inventory management on distributors and major clients and supervision and management in corporate marketing activities. Secondly, to strengthen the study of state policies, be familiar with the industry development direction, seize the development opportunities brought by the medical reform, improve the national basic list of medication, medical system in community and the New Rural Cooperative Medical System and Sunshine bidding, etc. Thirdly, to accelerate market development and expedite marketing of Kun Xian Capsule and launch of new products such as Rabies Bacterin, and endeavor to nurture new points of business growth.
2. To continuously expedite technology innovation, increase technology input, strengthen self innovation in various corporate advantageous fields, optimize product structures, enhance core competitiveness of corporate development in the future and improve application and commercial production of our new products and strengthen the quality awareness of corporate pharmaceutical products at the same time.

3. To further strengthen the supervision and management on subsidiaries, implement internal audit and control related works, regulate corporate business operations, lower operational risks and further regulate financial management, expedite comprehensive budget management, strengthen corporate capital arrangement and management as well as lower operational risks.
4. To strengthen corporate planning and basic management, continuously deepen consolidation of resources within the Group and enhance efficiency of integration.

In 2009, the Group strives to achieve sales revenue of RMB4,000 million.

## 7 MAJOR EVENTS

### 7.1 During the Reporting Period, the Company's purchase and disposal of assets or business combination and other transactions

#### 7.1.1 Purchase of assets

Applicable     Not applicable

Counterparties	Assets purchased	Date of purchase	Price of purchase (RMB'000)	Net profit since the date of purchase as at the end of the Year (RMB'000)	Net profit attributable to the Company from the beginning of the Year to the end of the Year (applicable to business combination under same control) (RMB'000)	Connected Transactions (if yes, explain pricing principle)	Assets involved fully transferred	Debts involved fully transferred
GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited and five natural persons	26.04% equity interest in aggregate in Guangzhou Han Fang	17 March 2008	23,299	(3,384)	–	Yes. Price set with reference to asset assessment and by negotiation	Yes	Yes

### 7.1.2 Disposal of assets

Applicable     Not applicable

Counterparties	Assets disposed	Date of disposal	Price of disposal (RMB'000)	Net profit	Loss and gain generated from disposal (RMB'000)	Connected transactions (if yes, explain pricing principle)	Assets involved fully transferred	Debts involved fully transferred
				attributable to the Company from assets since the beginning of the Year to date of disposal (RMB'000)				
Shenzhen Landwind Industrial Co., Ltd	24% of the equity interest in Guangzhou Jihua Medical Apparatus and Instruments Co., Ltd	22 December 2008	5,670	292	2,963	No	Relevant formalities are being processed	Yes
Alliance BMP Limited	7.838% in GP Corp. jointly held by Jing Xiu Tang and Pan Gao Shou, subsidiaries of the Company	17 January 2008	47,420	–	9,140	No	Yes	Yes

### *7.1.3 Other transactions during the Reporting Period*

Save as the aforementioned, other transactions during the Reporting Period include:

1. On 28 March 2008, the Company and GPLH entered into the Agreement in relation to the Sales and Purchases Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions under the Agreement were approved at the Board meeting on 28 March 2008 and the 2007 annual general meeting on 29 May 2008.

Please refer to the announcement of the Company on Shanghai Securities News in the PRC published on 31 March 2008 for details.

2. On 28 March 2008, it was approved at the 5th Meeting of the Fourth Session of the Board to capitalise the borrowings from the Company to Guangzhou Han Fang and Guangzhou Bai Di of RMB35 million and RMB48 million respectively (Please refer to the announcement of resolutions at the 5th Meeting of the Fourth Session of the Board dated 28 March 2008 for details). At present, the formalities in relation to the capitalization of borrowings by Guangzhou Han Fang and Guangzhou Bai Di was completed.
3. On 8 August 2008, it was approved at the 9th Meeting of the Fourth Session of the Board for the Company to contribute RMB5 million for the establishment of the Huanan Xinyao Chuangzhi Company Limited, accounting for 5% of the shares thereof (Please refer to the announcement of resolutions at the 9th Meeting of the Fourth Session of the Board dated 11 August 2008 for details). During the Reporting Period, the Company has paid the first and second installments for a total of RMB3,500,000 in accordance with the contract and the third installment will be paid in accordance with the contract.

## 7.2 Major guarantees

Applicable     Not applicable

### Guarantees provided to parties other than the Company's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
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-	-	-	-	-	-	-
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						Nil
Balance of guarantees as at the end of the Reporting Period (RMB'000)						Nil

### The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)						145,011
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)						145,011

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

Total amount of guarantees provided (RMB'000)						145,011
% the net assets of the Company (%)						5.16

Include:

Amount of guarantees provided to the Company's shareholders, controlling shareholder and other connected parties (RMB'000)						-
Direct or indirect gurantees provided to entities with a gearing ratio of over 70% (RMB'000)						69,211
Amount of gurantees provided which exceeds 50% of the total net assets of the Company (RMB'000)						-
Total (RMB'000)						69,211

## 7.3 Major connected transactions

### 7.3.1 Connected transactions related to daily operations

Applicable     Not applicable

Connected parties	Sales of products and provision of services to connected parties		Purchase of products and services received from connected parties	
	Amount (RMB'000)	Ratio in amount of similar transactions (%)	Amount (RMB'000)	Ratio in amount of similar transactions (%)
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	56,430	1.64	83,678	4.00
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	22,761	0.66	6,891	0.33
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	7,408	0.21	108	0.01
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	37,593	1.09	42,560	2.03
Po Lian Development Co., Ltd.	1,713	0.05	69,317	3.31
Guangzhou Pharmaceutical Industrial Research Institute	3	0.00	–	–
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	26,317	0.76	707	0.03
GP Corp.	222,927	6.46	87,498	4.18
Wang Lao Ji	72,949	2.11	1,611	0.08
Guangzhou Pharmaceutical Soccer Club Co., Ltd.	8	–	–	–
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	–	–	741	0.04
Guangzhou Baxter Qiao Guang Phammaceutical Co., Ltd.	16	–	25	–
<b>Total</b>	<b>448,125</b>	<b>12.98</b>	<b>293,136</b>	<b>14.01</b>

Including: During the Reporting Period, connected transactions of sales of products or provision of services from the Group to the Company's controlling shareholder and its subsidiaries amounted to RMB125,900,000.



### 7.3.2 Connected debts

Applicable     Not applicable

Related parties	Capital provided to connected parties		Capital received from connected parties	
	Amount (RMB'000)	Balance (RMB'000)	Amount (RMB'000)	Balance (RMB'000)
<b>Amounts receivable and payable:</b>				
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	65,838	11,171	97,903	874
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	26,108	726	8,062	–
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	8,668	1,070	126	8
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	43,302	2,257	49,759	518
Po Lian Development Co., Ltd	2,004	142	81,101	11,154
Guangzhou Pharmaceutical Industrial Research Institute	3	–	–	–
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	30,362	1,476	828	–
GP Corp.	260,824	20,066	102,373	8,861
Wang Lao Ji	85,350	3,827	1,885	17
Guangzhou Pharmaceutical Soccer Club Co., Ltd	10	10	–	–
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd	–	–	867	323
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd	18	–	29	–
<b>Sub-total</b>	<u>522,487</u>	<u>40,745</u>	<u>342,933</u>	<u>21,755</u>
<b>Advances and prepayments:</b>				
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	68,243	12,705	1,025	774
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	2,475	176	86	86
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	–	–	1,022	1,022
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	25,064	602	426	138
Po Lian Development Co., Ltd	1,014	1,014	–	–
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	–	–	929	–
GP Corp.	5,760	–	–	–
<b>Sub-total</b>	<u>102,556</u>	<u>14,497</u>	<u>3,488</u>	<u>2,020</u>

Related parties	Capital provided to connected parties		Capital received from connected parties	
	Amount (RMB'000)	Balance (RMB'000)	Amount (RMB'000)	Balance (RMB'000)
<b>Other accounts receivable and payable:</b>				
GPHL	72	2,844	7,177	6,471
Guangzhou Hua Nan Medical Apparatus Co., Ltd	–	100	–	–
Guangzhou Pharmaceutical Industrial Research Institute	40	–	–	–
GP Corp.	4,213	4,213	–	–
Wang Lao Ji	11,555	–	–	188
Guangzhou Nuo Cheng Bio-tech Co., Ltd	221	221	–	–
Guangzhou Pharmaceutical Soccer Club Co., Ltd	1,531	–	–	–
<b>Sub-total</b>	<u>17,632</u>	<u>7,378</u>	<u>7,177</u>	<u>6,659</u>
<b>Entrusted loans:</b>				
GP Corp.	158,973	150,000	–	–
Wang Lao Ji	–	–	30,000	30,000
<b>Sub-total</b>	<u>158,973</u>	<u>150,000</u>	<u>30,000</u>	<u>30,000</u>
<b>Notes receivable and payable:</b>				
GP Corp.	5,749	5,749	–	–
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	–	–	34,907	32,716
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	–	–	6,010	3,010
<b>Sub-total</b>	<u>5,749</u>	<u>5,749</u>	<u>40,917</u>	<u>35,726</u>
<b>Total</b>	<u><u>807,397</u></u>	<u><u>218,369</u></u>	<u><u>424,515</u></u>	<u><u>96,160</u></u>

Including: During the Reporting Period, capital provided by the Group to controlling shareholders and its subsidiaries amounted to RMB24,283,000, with a balance of RMB32,810,000.

#### 7.4 Entrusted fund management

Applicable  Not applicable

#### 7.5 Performance of the undertakings

Applicable  Not applicable

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

#### 7.6 Significant Litigation or Arbitration

Applicable  Not applicable

## 7.7 Other major events and analysis of their impacts and solutions

### 7.7.1 Investments of securities

Applicable     Not applicable

Number	Type of securities	Stock Code	Abbreviation of the stock	Initial investment amount (RMB'000)	Number of	Book value	% of stock	Gain/(loss)
					shares held as at the end of the Reporting Period (share)	as at the end of the Reporting Period (RMB'000)	investments for the Reporting Period (%)	for the Reporting Period (RMB'000)
1	A Share of Shanghai market	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	520	17.29	(1,248)
2	A Share of Shanghai market	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	2,488	82.71	(1,212)
Other stock investments held as at the end of the Reporting Period				-	-	-	-	-
Gain/(Loss) of stock investments sold as at the end of the Reporting Period				-	-	-	-	-
Total				<u>5,511</u>	<u>280,356</u>	<u>3,008</u>	<u>100.00</u>	<u>(2,503)</u>

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

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

### 7.7.2 Information on the Company's Interests in Shares of Other Listed Companies

Applicable     Not applicable

Stock Code	Stock name	The initial investment amount (RMB'000)	% of Shareholding (%)	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	269	-	1,255	20	(2,126)	Financial assets available for sale	Subscription (note)

Note: (1) The shares of Bank of Communications was being held by the subsidiaries of the Company and have been listed on the Shanghai Stock Exchange and were calculated as transfer of long term equity investment into available-for-sale financial assets according to New Accounting Standards.

(2) As at 31 December 2007, GP Corp. held 97,879 shares in the Bank of Communications, the stock market value of which was RMB1,529,000. With effect from 2008, the Company applied equity method in the accounting of GP Corp, a jointly controlled entity. Therefore, the number of shares in the Bank of Communications held by the Group and the book value therefore as at the beginning of 2008 decreased accordingly.

### 7.7.3 Information on the Company's interests in non-listed financial institutions

Applicable     Not applicable

Name	The initial investment amount (RMB'000)	Number of shares held (share)	% of shareholding (RMB'000)	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
China Everbright Bank Company Limited	10,725	6,050,000	0.02	10,725	-	-	Long-term investment	subscription
Golden Eagle Fund Management Co., Ltd.	20,000	-	20.00	15,517	(141)	-	Long-term investment	subscription

### 7.7.4 Information on trading in shares of other listed companies

Applicable     Not applicable

## 7.8 Audit Committee

During the Reporting Period, the Audit Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Audit Committee of the Company. Besides, the Audit Committee actively worked in line with the requirements set out in the “Notice on 2008 Annual Report” to oversee the auditing work for 2008 and the preparation of the annual report.

- (1) Major tasks accomplished by the Audit Committee in 2008 included:
  - (i) convening two meetings in 2008 to review the 2007 Annual Report and 2008 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company’s management;
  - (ii) evaluating the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
  - (iii) re-appointment of auditors of the Company for the year;
  - (iv) issuing recommendations with respect to major events of the Company or reminding the management of relevant risks.

Each of the members of the committee attended all the meetings.

- (2) Annual audit for 2008 and relevant jobs regarding the preparation of the Annual Report

After the issuance of the “Notice on 2008 Annual Report”, all members of the Audit Committee studied the relevant requirements seriously. The Committee worked in accordance with the Guidelines in launching the auditing work for 2008 and preparatory work for the annual report of the Company, which included the following:

- (i) The Committee discussed with the domestic and international auditors of the Company and the Company’s Finance Department regarding the schedule for auditing and the relevant arrangements and set out the “Framework for the Preparation of 2008 Annual Report” and reviewed the audit plan submitted by the auditors.

- (ii) The Audit Committee reviewed the preliminary financial accounting reports prepared by the Company on 10 March 2008 and communicated with the domestic and international auditors regarding the related issues involved in the progress and course of audit.
- (iii) After preliminary discussion with domestic and international auditors, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believes the 2008 Financial Reports of the Company reflected the state of affairs of the Company truly, accurately and completely, and agreed to submit the Reports to the Board for approval.
- (iv) On 24 March 2009, the Audit Committee convened the first meeting for 2009 and considered and passed the 2008 Annual Report of the Company and the Company's 2008 Financial Statements. At the same time, the Audit Committee summed up its evaluation on the audit work of the domestic and international auditors and believes that both auditors have carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide to their professional ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report in time, as well as issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

## **7.9 Compliance with the Code on Corporate Governance Practices**

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

## **7.10 Model Code for Securities Transactions by Directors and Supervisors**

The Company had adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules and Measures for the Administration of Trading Shares of the Company by Directors, Supervisors and Senior Management as stipulated by the Company as the standards and criteria for securities transactions entered into by Directors and Supervisors. After specific enquiries made to all Directors and Supervisors, the Company has confirmed that all the Company’s directors and supervisors complied with the standards relating to directors’ and supervisors’ dealing in securities as set out in the above code and criteria during the Reporting Period.

## **8. REPORT OF THE SUPERVISORY COMMITTEE**

The supervisory committee considered that the Company’s operations was has been in compliance with relevant laws and regulations. There was no problem existed in the Company’s financial conditions, use of proceeds raised from the issue of A shares, purchases and sales of assets and connected transactions.

## **9. FINANCIAL REPORTS**

### **9.1 Audit Opinion**

The Group and the Company’s accounts for the year ended 31 December 2008 were audited by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report (2009 Yang Cha Zi No. 15836) signed by the two Chinese certified public accountants, Ms. Wu Jiali and Mr. Ye Weixiang, and by PricewaterhouseCoopers Certified Public Accountants, who has issued unqualified auditors’ reports thereon.



## 9.2 Financial Information (prepared in accordance with HKFRS)

### Consolidated Income Statement – by function of expense

		As at 31 December 2008 <i>(RMB'000)</i>	As at 31 December 2007 <i>(RMB'000)</i> Restated
Revenue	9.2.3	<b>3,450,586</b>	11,873,514
Cost of goods sold	9.2.6	<b>(2,446,620)</b>	(10,086,073)
<b>Gross profit</b>		<b>1,003,966</b>	1,787,441
Other operating income	9.2.4	<b>95,223</b>	73,382
Other gains-net	9.2.5	<b>100,146</b>	33,339
Other operating expenses		<b>(10,544)</b>	(6,265)
Selling and marketing costs	9.2.6	<b>(626,191)</b>	(919,921)
Administrative expenses	9.2.6	<b>(452,603)</b>	(512,502)
<b>Operating profit</b>		<b>109,997</b>	455,474
Finance costs – net	9.2.7	<b>(7,814)</b>	(61,829)
Share of (loss)/profit of associates		<b>(5,171)</b>	7,889
Share of profit of jointly controlled entities		<b>111,540</b>	48,176
<b>Profit before income tax</b>		<b>208,552</b>	449,710
Income tax expense	9.2.8	<b>(37,256)</b>	(119,859)
<b>Profit for the year</b>		<b>171,296</b>	329,851
<b>Attributable to:</b>			
Shareholders of the Company		<b>181,829</b>	320,343
Minority interest		<b>(10,533)</b>	9,508
		<b>171,296</b>	329,851
<b>Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)</b>			
– basic and diluted	9.2.9	<b>0.224</b>	0.395
<b>Dividends</b>		<b>32,436</b>	100,552

## Consolidated Balance Sheet

	As at 31 December 2008 (RMB'000)	As at 31 December 2007 (RMB'000) Restated
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,311,088	1,379,603
Investment property	135,426	76,389
Leasehold land and land use rights	97,164	120,841
Intangible assets	12,162	25,977
Investments in associates	19,695	27,349
Investments in jointly controlled entities	787,580	248,043
Available-for-sale financial assets	16,272	17,223
Deferred income tax assets	47,222	52,047
	<u>2,426,609</u>	<u>1,947,472</u>
<b>Current assets</b>		
Inventories	633,059	1,377,613
Trade and other receivables	9.2.11 869,066	2,377,012
Financial assets at fair value through profit or loss	3,008	5,511
Tax recoverable	41,788	25,327
Restricted cash	15,275	33,740
Cash and cash equivalents	365,859	585,046
	<u>1,928,055</u>	<u>4,404,249</u>
<b>Total assets</b>	<u>4,354,664</u>	<u>6,351,721</u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to shareholders of the Company</b>		
Share capital	810,900	810,900
Share premium	781,134	781,134
Other reserves	984,490	1,061,328
Retained earnings		
– Proposed final dividend	9.2.10 32,436	100,552
– Others	636,345	414,107
	<u>3,245,305</u>	<u>3,168,021</u>
<b>Minority interest in equity</b>	<u>115,460</u>	<u>249,371</u>
<b>Total equity</b>	<u>3,360,765</u>	<u>3,417,392</u>

	<b>As at 31 December 2008 (RMB'000)</b>	<b>As at 31 December 2007 (RMB'000) Restated</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	46,959	35,817
Government grants	13,525	8,393
Employee benefits	25,124	39,615
Borrowings	30,000	-
	<u>115,608</u>	<u>83,825</u>
<b>Current liabilities</b>		
Trade and other payables	628,926	1,854,913
Dividend payables	58	2,031
Current income tax liabilities	6,032	25,158
Borrowings	243,275	968,402
	<u>878,291</u>	<u>2,850,504</u>
<b>Total liabilities</b>	<u>993,899</u>	<u>2,934,329</u>
<b>Total equity and liabilities</b>	<u>4,354,664</u>	<u>6,351,721</u>
<b>Net current assets</b>	<u>1,049,764</u>	<u>1,553,745</u>
<b>Total assets less current liabilities</b>	<u>3,476,373</u>	<u>3,501,217</u>

### 9.2.1 Summary of significant accounting policies

Excepted as described below, the principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented.

#### (a) Change in accounting policy for investment in jointly controlled entities

“In previous years, the Group’s investments in jointly controlled entities were accounted for by proportionate consolidation. The Group combined its share of the jointly controlled entities’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group’s financial statements.

In 2008, following the announcement of Interpretation 2 of the China Accounting Standards 2006 (“CAS 2006”) by the Ministry of Finance which specified that companies with both A and H shares listed on the stock exchanges should apply consistent accounting policies, to the extent possible, for the financial statements prepared in accordance with both CAS 2006 and Hong Kong Financial Reporting Standards (“HKFRS”). The Group changed its accounting policy of the jointly controlled entities from proportionate consolidation to equity method in the financial statements prepared in accordance with the CAS 2006. In order to provide consistent financial information under CAS 2006 and HKFRS and provide more relevant financial information as it is consistent with the industry practices to facilitate the users of financial information to better understand the Group’s financial position and operation results, the Group also changed its accounting policy of the jointly controlled entities from proportionate consolidation to equity method.

The changes in the accounting policies should be applied retrospectively and accordingly the comparative figures for 2007 have been reclassified as follows:

<b>Consolidated balance sheet</b>	<b>As at 31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>(RMB’000)</b>	<b>(RMB’000)</b>
Increase in:		
Investment in jointly controlled entities	<b>302,370</b>	248,043
Decrease in:		
Other non-current assets	<b>101,756</b>	89,419
Current assets	<b>304,897</b>	200,073
Non-current liabilities	<b>5,770</b>	1,904
Current liabilities	<b>98,513</b>	39,545

<b>Consolidated income statement</b>	<b>Year ended 31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>(RMB'000)</b>	<b>(RMB'000)</b>
Increase in:		
Share of profit of jointly controlled entities	<b>69,658</b>	48,176
Decrease in:		
Revenue	<b>619,494</b>	387,230
Expenses	<b>537,917</b>	331,958
Income tax expense	<b>11,919</b>	7,096

*(b) Transaction with minority interests*

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

In 2008, the Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is equity. Gains or losses on disposals to minority interests are also recorded in equity.

The application of the new policy to past transactions did not result in any change in net assets and net profit attributable to shareholders of the Company in previous years.

### *9.2.2 Basis of preparation*

The consolidated financial statements of the Company have been prepared in accordance with HKFRS. They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

#### *(a) Amendments effective in 2008*

The HKAS 39, “Financial instruments: Recognition and measurement”, amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, “Financial instruments: Disclosures”, introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group’s financial statements, as the Group has not reclassified any financial assets.

### 9.2.3 Segment information

#### Primary reporting format – business segments

Turnover comprised sales from the above business segments, which were RMB3,450,586,000 and RMB11,873,514,000 for the years ended 31 December 2008 and 2007 respectively.

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

	Manufacturing (RMB'000)	Wholesale (RMB'000)	Retail (RMB'000)	Import and export (RMB'000)	Unallocated (RMB'000)	Elimination (RMB'000)	Group (RMB'000)
Total segment revenue	1,822,993	1,926,596	136,717	202,464	–	(638,184)	3,450,586
Inter-segment revenue	12,230	(577,563)	(157)	(72,694)	–	638,184	–
Revenue	<u>1,835,223</u>	<u>1,349,033</u>	<u>136,560</u>	<u>129,770</u>	<u>–</u>	<u>–</u>	<u>3,450,586</u>
Segment results	45,184	12,280	6,292	4,874	72,764	(31,397)	109,997
Operating profit							109,997
Finance costs-Net							(7,814)
Share of loss of associates	(4,883)				(288)		(5,171)
Share of profit of jointly controlled entities	67,672	43,868					<u>111,540</u>
Profit before income tax							<u>208,552</u>
Income tax expense							<u>(37,256)</u>
Profit for the year							<u><u>171,296</u></u>

The segment results for the year ended 31 December 2007 are as follows:

	Manufacturing (RMB'000) (Restated)	Wholesale (RMB'000) (Restated)	Retail (RMB'000) (Restated)	Import and export (RMB'000) (Restated)	Unallocated (RMB'000) (Restated)	Elimination (RMB'000) (Restated)	Group (RMB'000) (Restated)
Total segment revenue	2,438,156	9,972,784	353,687	227,592	–	(1,118,705)	11,873,514
Inter-segment revenue	(66,478)	(1,024,230)	(435)	(27,562)	–	1,118,705	–
Revenue	<u>2,371,678</u>	<u>8,948,554</u>	<u>353,252</u>	<u>200,030</u>	<u>–</u>	<u>–</u>	<u>11,873,514</u>
Segment results	304,376	157,233	9,791	4,237	38,010	(58,173)	455,474
Operating profit							455,474
Finance costs-Net							(61,829)
Share of profit of associates	42				7,847		7,889
Share of profit of jointly controlled entities	48,176						<u>48,176</u>
Profit before income tax							<u>449,710</u>
Income tax expense							<u>(119,859)</u>
Profit for the year							<u><u>329,851</u></u>

Other segment items for the year ended 31 December 2008 included in the consolidated income statement are as follows:

	Manufacturing (RMB'000)	Wholesale (RMB'000)	Retail (RMB'000)	Import and export (RMB'000)	Unallocated (RMB'000)	Group (RMB'000)
Depreciation	92,194	3,161	1,268	159	7,285	104,067
Amortisation	14,378	430	–	52	565	15,425
Impairment of inventories	5,285	6,015	–	–	–	11,300
Reversal of impairment for inventories	<u>(1,356)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,356)</u>



Other segment items for the year ended 31 December 2007 included in the consolidated income statement are as follows:

	<b>Manufacturing</b>	<b>Wholesale</b>	<b>Retail</b>	<b>Import and export</b>	<b>Unallocated</b>	<b>Group</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Depreciation	82,585	15,371	2,798	178	3,291	104,223
Amortisation	12,488	5,705	–	–	245	18,438
Impairment of inventories	11,898	722	–	–	–	12,620
Impairment of property, plant, and equipment	–	44	–	–	–	44
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	<b>Manufacturing</b>	<b>Wholesale</b>	<b>Retail</b>	<b>Import and export</b>	<b>Unallocated</b>	<b>Elimination</b>	<b>Group</b>
	<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	2,620,417	614,419	59,997	86,719	751,886	(586,049)	3,547,389
Associates	4,130	–	–	–	15,565	–	19,695
Jointly controlled entities	303,367	484,213	–	–	–	–	787,580
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>2,927,914</u>	<u>1,098,632</u>	<u>59,997</u>	<u>86,719</u>	<u>767,451</u>	<u>(586,049)</u>	<u>4,354,664</u>
Liabilities	<u>851,192</u>	<u>578,668</u>	<u>57,975</u>	<u>62,962</u>	<u>29,151</u>	<u>(586,049)</u>	<u>993,899</u>
Capital expenditure	<u>183,901</u>	<u>2,590</u>	<u>–</u>	<u>30</u>	<u>365</u>	<u>–</u>	<u>186,886</u>

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are restated 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)
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Assets	2,432,931	3,349,140	161,609	120,207	751,346	(738,904)	6,076,329
Associates	8,992	–	–	–	18,357	–	27,349
Jointly controlled entities	248,043	–	–	–	–	–	248,043
	<u>2,689,966</u>	<u>3,349,140</u>	<u>161,609</u>	<u>120,207</u>	<u>769,703</u>	<u>(738,904)</u>	<u>6,351,721</u>
Total assets							
Liabilities	<u>562,133</u>	<u>2,891,969</u>	<u>88,265</u>	<u>97,278</u>	<u>33,588</u>	<u>(738,904)</u>	<u>2,934,329</u>
Capital expenditure	<u>96,274</u>	<u>11,930</u>	<u>1,002</u>	<u>21</u>	<u>394</u>	<u>–</u>	<u>109,621</u>

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

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

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

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights and intangible assets.

## The secondary reporting format – geographical segments

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

### 9.2.4 Other operating income

	2008 (RMB'000)	2007 (RMB'000) (Restated)
Rental income	52,859	40,915
Government grants	18,402	9,409
License fee income	11,555	8,751
Material sales income	3,102	638
Consulting income	792	4,231
Promotion income	–	4,033
Others	8,513	5,405
	<u>95,223</u>	<u>73,382</u>

### 9.2.5 Other gains-net

	2008 (RMB'000)	2007 (RMB'000) (Restated)
Gains on dilution of interest in a subsidiary	47,559	28,833
Gains on disposal of interest in subsidiaries	16,409	–
Fair value gain from investment property revaluation	27,155	–
Waived liabilities	7,099	6,495
Gains on disposals of investment in an associate	3,255	–
Gains on disposals of available-for-sale financial assets	–	3,097
Compensation on the removal of building/factory from government	–	951
Fair value loss from financial assets at fair value through profit or loss	(2,503)	–
Loss on disposals of property, plant and equipment	(813)	(1,649)
Others	1,985	(4,388)
	<u>100,146</u>	<u>33,339</u>

### 9.2.6 Operating profits

The following items were included in operation profits for the year:

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Depreciation and amortisation expenses	<b>119,492</b>	122,661
Loss in disposal of fixed assets	<b>813</b>	1,649

### 9.2.7 Finance costs – net

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Interest expense on borrowings	<b>10,197</b>	57,216
Other incidental borrowing costs	<b>8,987</b>	10,666
Finance costs	<b>19,184</b>	67,882
Less: Finance income		
– Interest income on short-term bank deposits	<b>(3,724)</b>	(6,053)
– Interest income on loan to a jointly controlled entities	<b>(7,646)</b>	–
Finance costs – net	<b>7,814</b>	61,829

### 9.2.8 Income tax

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

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Current income tax	<b>31,690</b>	107,902
Deferred income tax	<b>5,566</b>	11,957
	<b>37,256</b>	119,859

### 9.2.9 Earnings per share

The calculation of earnings per share for the year ended 31 December 2008 is based on the profit attributable to shareholders of the Company of RMB 181,829,000 (2007: RMB320,343,000) and the 810,900,000 (2007: 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 2008 and 2007.

### 9.2.10 Dividends

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Proposed final dividend of RMB0.04 (2007: RMB0.124) per ordinary share	<b>32,436</b>	100,552

At a meeting held on 27 March 2009, the directors declared a final dividend of RMB0.04 per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

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

### 9.2.11 Trade and other receivables

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Trade receivables	<b>512,640</b>	1,691,413
Less: provision for impairment of trade receivables	<b>(54,669)</b>	(50,957)
Trade receivables – net	<b>457,971</b>	1,640,456
Bills receivable	<b>156,650</b>	518,342
Prepayments	<b>56,473</b>	165,955
Other receivables	<b>47,972</b>	52,259
Loans to a jointly controlled entity	<b>150,000</b>	–
	<b>869,066</b>	2,377,012

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

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Within 6 months	<b>415,753</b>	1,600,944
6 months to 1 year	<b>36,907</b>	43,923
Over 1 year	<b>59,980</b>	46,546
	<u><b>512,640</b></u>	<u>1,691,413</u>

*9.2.12 Trade and other payables*

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Trade payables	<b>335,668</b>	1,568,686
Payroll and welfare payables	<b>69,165</b>	86,594
Government grant	<b>62,523</b>	56,978
Payables for equipments and construction in progress	<b>39,679</b>	5,362
Deposits received	<b>22,151</b>	23,290
Advances from customers	<b>18,036</b>	35,873
Accruals	<b>38,941</b>	40,420
Others	<b>42,763</b>	37,710
	<u><b>628,926</b></u>	<u>1,854,913</u>

The ageing analysis of trade payables as at 31 December was as follows:

	<b>2008</b> <i>(RMB'000)</i>	2007 <i>(RMB'000)</i> (Restated)
Within 3 months	<b>276,068</b>	1,301,181
3 months to 1 year	<b>36,922</b>	234,562
1 year to 2 years	<b>17,447</b>	20,543
Over 2 years	<b>5,231</b>	12,400
	<b><u>335,668</u></b>	<b><u>1,568,686</u></b>

**9.3 Explanation on possible changes in accounting policies, estimation and audit method when compared with the 2007 annual report.**

Applicable     Not applicable

Pursuant to Accounting Standard for Business Enterprises Interpretation No. 2 issued by the Ministry of Finance in August 2008, joint ventures were not included in the scope of consolidation of the Group and were computed in the equity accounting method. Meanwhile, in preparation of the comparative accounting statements, retrospective adjustments were made in the equity accounting method for joint ventures including Wang Lao Ji and Guangzhou Nuo Cheng Bio-tech Co., Ltd in 2007. Except that there was impact on items such as assets, liabilities and income in the consolidated financial statements as at the end of 2007, there was basically no impact on shareholders' equity of the Group as at the end of 2007.

For the change in accounting policy under HKFRS, please refer to note 9.2.1.

**9.4 Content, amended amount, reasons and impacts of major accounting errors**

Applicable     Not applicable

**9.5 Explanation on possible changes in scope of business combination when compared with the latest annual report**

Applicable     Not applicable

Pursuant to Accounting Standard for Business Enterprises Interpretation No. 2 issued by the Ministry of Finance in August 2008, joint ventures were not included in the scope of consolidation. Therefore, in preparation of the financial statements for 2008, the scope of consolidation in the statements for the same period last year did not include Wang Lao Ji and Guangzhou Nuo Cheng Bio-tech Co., Ltd and the scope of consolidation for the year did not include GP Corp. The liquidation of Guangzhou Guangyao Ying Bang Marketing Co., Ltd. was completed in 2008, and it was not included in the scope of consolidation.

The Board of  
**Guangzhou Pharmaceutical Company Limited**

Guangzhou, the PRC, 27 March 2009

*As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Shi Shaobin and Mr. Feng Zansheng as Executive Directors, and Mr. Wong Hin Wing,, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua as Independent Non-executive Directors.*