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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 2009 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 2009 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 2009 annual report carefully.
- 1.3 Directors of the Board were present at the eighteenth meeting of the Fourth Session of the Board of the Company, among whom, Mr. Yang Rongming, the chairman of the Board, and Mr. Zhang Yonghua, an independent non-executive director, were unable to attend the meeting personally, and respectively appointed Mr. Shi Shaobin, an executive director, and Mr. Li Shanmin, an independent non-executive director, to attend the meeting and vote on their behalf.
- 1.4 Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd., the domestic auditors, and PricewaterhouseCoopers, the international auditors, have audited the financial reports of the Company together with its subsidiaries (collectively the “Group”) and the Company for the year ended 31 December 2009 (the “Reporting Period” or the “Year”) and issued unqualified auditors’ reports thereon.
- 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 There has been non-operational appropriation of funds of the Company by its connected parties (please refer to 7.3.2 of this summary).
- 1.7 The Company has not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- 1.8 Unless otherwise specified, the financial data quoted in this summary is prepared in accordance with the PRC Accounting Standards.
- 1.9 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 the Hong Kong Financial Reporting Standards (“HKFRS”), the Chinese version shall prevail.
- 1.10 All the information required to be contained in the summary of 2009 annual report of the Company pursuant to 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, Liwan District Guangzhou City, Guangdong Province, the PRC
Postal code	510130
Internet website	http://www.gpc.com.cn
E-mail	sec@gpc.com.cn

2.2 Contacts

	Secretary to the Board	Representative of securities affairs
Name	Pang Jianhui	Huang Xuezheng
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3. FINANCIAL DATA AND INDICATORS

3.1 Principal financial data

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

Note: The above financial data and indicators are computed based on the consolidated financial statements.

3.2 Principal financial indicators

	2009	2008	Changes as compared with 2008 (%)	2007 (Restated)
Basic earnings per share (RMB)	0.260	0.225	15.61	0.413
Diluted earnings per share (RMB)	0.260	0.225	15.61	0.413
Basic earnings per share after deducting non-operating items (RMB)	0.193	0.108	78.55	0.361
Fully diluted return on net assets (%)	6.39	5.84	An increase of 0.55 percentage point	10.95
Weighted average return on net assets (%)	6.56	5.88	An increase of 0.68 percentage point	11.46
Ratio of fully diluted return on net assets after deducting non-operating items (%)	4.74	2.81	An increase of 1.93 percentage points	9.56
Weighted average return on net assets after deducting non-operating items (%)	4.87	2.83	An increase of 2.04 percentage points	10.01
Net cash flow from operating activities per share (RMB)	0.54	0.01	7,099.06	0.33
	As at 31 December 2009 (Audited)	As at 31 December 2008 (Audited)	Changes as compared with 31 December 2008 (%)	As at 31 December 2007 (Restated)
Net assets per share attributable to the shareholders of the Company (RMB)	4.07	3.85	5.74	3.77

Non-operating items Applicable Not applicable

Items	Amount <i>(RMB'000)</i>
Gain/(Loss) on disposal of non-current assets	(177)
Government subsidies recognized as gain/(loss)	26,622
Capital use fees received from non-financial enterprises recognized as gain/(loss)	1,871
Gain/(Loss) changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets	2,324
Write back of provision for impairment of accounts receivable undergoing independent impairment test	28,374
Gain/(Loss) received from entrusted loans	4,222
Other non-operating income and expenses excluding the above items	(2,192)
Other gain/loss items within the definition of extraordinary gain/loss	–
Income tax effect	(2,457)
Effect on minority interest	(4,183)
Total	54,404

Items measured at fair value Applicable Not applicable

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

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

Applicable Not applicable

	As at 31 December	
	2009	2008
	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Net assets attributable to shareholders of the Company under the PRC Accounting Standards	3,304,186	3,124,842
Difference arising from fixed assets revaluation	102,995	118,761
Revaluation of investment properties	97,257	64,733
Revaluation of investment on China Everbright Bank Company Limited	15,523	–
Net effect of deferred tax	(53,512)	(46,425)
Deferred government subsidies	–	(2,387)
Difference in minority interests	(16,447)	(14,219)
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Capital and reserves attributable to shareholders of the Company under HKFRS	3,450,002	3,245,305
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	2009	2008
	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Net profits attributable to shareholders of the Company under the PRC Accounting Standards	210,989	182,496
Amortization of intangible assets	–	(16,669)
Additional depreciation on revalued fixed assets	(4,967)	(4,967)
Difference arising from investment properties in cost model and fair value model	2,634	27,155
Provision for deferred taxation	4,099	(6,402)
Government subsidies recognized as deferred income through profit and loss	2,387	446
Difference in minority interests	(242)	(230)
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Profits attributable to shareholders of the Company under the HKFRS	214,900	181,829
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3.4 Accounts prepared in accordance with HKFRS

Items	2009	2008	2007	2006	2005
Turnover (RMB'000)	3,802,423	3,450,586	11,873,514	10,049,091	8,784,637
Profit before income tax (RMB'000)	235,168	208,552	449,710	349,155	315,493
Profit attributable to shareholders of the Company (RMB'000)	214,900	181,829	320,343	218,067	197,804
Earnings per share (RMB)	0.265	0.224	0.395	0.269	0.244
	As at	As at	As at	As at	As at
	31 December	31 December	31 December	31 December	31 December
Items	2009	2008	2007	2006	2005
Total assets (RMB'000)	4,449,007	4,354,664	6,351,721	5,610,740	5,293,769
Total liabilities (RMB'000)	885,341	993,899	2,934,329	2,530,360	2,368,539
Capital and reserves attributable to equity holders of the Company (RMB'000)	3,450,002	3,245,305	3,168,021	2,897,389	2,737,123
Capital and reserves per share attributable to shareholders of the Company (RMB)	4.25	4.00	3.91	3.57	3.36
Return on capital and reserves attributable to shareholders of the Company (%)	6.23	5.60	10.11	7.53	7.26
Ratio of capital and reserves attributable to shareholders of the Company to total assets (%)	77.55	74.52	49.88	51.64	51.70
Gearing ratio (%) (Note)	19.90	22.82	46.20	45.10	44.75

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

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 (%)
I. Shares with selling restrictions									
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	342,201,509	42.20	-	-	-	(342,201,509)	(342,201,509)	0	0
3. Other domestic shares	45,312,000	5.59	-	-	-	(45,312,000)	(45,312,000)	0	0
Including: Shares held by domestic legal entities	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Shares held by foreign capital									
Including: Shares held by overseas legal entities	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
Total shares with selling restrictions	387,513,509	47.79	-	-	-	(387,513,509)	(387,513,509)	0	0
II. Shares without selling restrictions									
1. Reminbi-denominated ordinary shares	203,486,491	25.09	-	-	-	387,513,509	387,513,509	591,000,000	72.88
2. Domestically listed foreign capital shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign capital shares	219,900,000	27.12	-	-	-	-	-	219,900,000	27.12
4. Others	-	-	-	-	-	-	-	-	-
Total shares without selling restrictions	423,386,491	52.21	-	-	-	387,513,509	387,513,509	810,900,000	100.00
III. Total shares	810,900,000	100.00	-	-	-	-	-	810,900,000	100.00

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

4.1.2 Changes of shares with selling restrictions

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

4.2 The Company's top ten shareholders

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

63,318

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

4.3 Information of the controlling shareholder and its beneficial owner

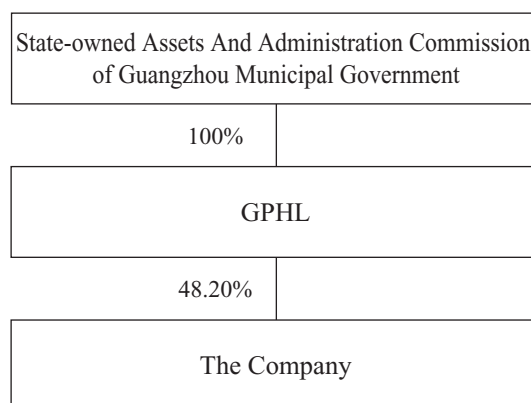
4.3.1 Information of the changes in the controlling shareholder and its beneficial owner

Applicable Not applicable

4.3.2 Information of the controlling shareholder and its beneficial owner

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
% of shares held	48.20%
Legal representative	Yang Rongming
Date of establishment	7 August 1996
Registered capital	RMB1,252.8 million
Business scope	To invest in and manage state-owned assets, to sell and manufacture Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.

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	Share options granted during the reporting period				Market price of shares as at the end of the Reporting Period	Whether emoluments were received from the Company's shareholder or connected parties
							Total emoluments received from the Group during the Reporting Period (RMB'000)	Number of exercisable shares (share)	Number of exercised shares (share)	Exercise price		
Yang Rongming	Chairman	Male	56	Nil	Nil	-	-	Nil	Nil	Nil	Nil	Yes
Shi Shaobin	Executive director, general manager	Male	42	Nil	Nil	-	497	Nil	Nil	Nil	Nil	No
Feng Zansheng	Executive director	Male	60	Nil	Nil	-	-	Nil	Nil	Nil	Nil	Yes
Wong Hin Wing	Independent non-executive director	Male	47	Nil	Nil	-	80	Nil	Nil	Nil	Nil	No
Liu Jinxiang	Independent non-executive director	Male	69	Nil	Nil	-	80	Nil	Nil	Nil	Nil	No
Li Shanmin	Independent non-executive director	Male	47	Nil	Nil	-	80	Nil	Nil	Nil	Nil	No
Zhang Yonghua	Independent non-executive director	Male	51	Nil	Nil	-	80	Nil	Nil	Nil	Nil	No
Yang Xiuwei	Chairlady of Supervisory Committee	Female	51	Nil	Nil	-	-	Nil	Nil	Nil	Nil	Yes
Wu Quan	Supervisor	Male	53	Nil	Nil	-	307	Nil	Nil	Nil	Nil	No
Zhong Yugan	Supervisor	Male	54	Nil	Nil	-	30	Nil	Nil	Nil	Nil	No
Su Guangfeng	Deputy general manager	Male	45	Nil	Nil	-	199	Nil	Nil	Nil	Nil	No
Chen Binhua	Financial controller	Male	44	6,240	6,240	-	249	Nil	Nil	Nil	Nil	No
Pang Jianhui	Secretary to the board	Male	37	Nil	Nil	-	238	Nil	Nil	Nil	Nil	No
Total	/	/	/	6,240	6,240	/	1,840	/	/	/	/	/

Notes:

- Mr. Yang Rongming, Mr. Shi Shaobin, Mr. Feng Zansheng, Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua, directors of the Company, have a term of office commencing from 15 June 2007 to the date when members of the new session of the Board are elected.
- Ms. Yang Xiuwei, Mr. Wu Quan and Mr. Zhong Yugan, the supervisors of the Company, have a term of office commencing from the 15 June 2007 to the date when members of the new session of the Supervisory Committee are elected.
- 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, research and development of natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

6.1.2 Analysis of operating results

(1) Operation review

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

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

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

In 2008, the Company had a one-off investment income, which included the equity interests premium income from addition capital contribution into Guangzhou Pharmaceuticals Corporation ("GP Corp.") by Alliance BMP

Limited and the income arising from transfer of the equity interests in GP Corp. by the subsidiaries of the Company amounted to RMB 60,996,000. The Company did not have similar investment income for the Reporting Period. During the Year, the Group's net profit increased by 73.65% as compared with the previous year computed according to the PRC Accounting Standards and the profit attributable to shareholders of the Company increased by 77.25% as compared with the previous year computed according to HKFRS, excluding the effect of the aforesaid one-off investment income.

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

Items	2009 <i>(RMB'000)</i>	2008 <i>(RMB'000)</i>	Growth/ (Decrease) <i>(YoY) (%)</i>
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Prepared in accordance with the PRC Accounting Standards

Income from principal operations	3,802,423	3,450,586	10.20
Operation profit	207,077	176,043	17.63
Total profit	231,331	202,179	14.42
Net profit	210,989	182,496	15.61

Prepared in accordance with HKFRS

Turnover	3,802,423	3,450,586	10.20
Profit before income tax	235,168	208,552	12.76
Profit attributable to shareholders of the Company	214,900	181,829	18.19

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

For the year 2009, the Group's cash flow was greatly improved as compared with the previous year, mainly because the Group actively streamlined the sales channels during the Year which accelerated the return on capital, contributing to a net cash flow from operating activities amounted to

RMB439 million, representing an increase of RMB433 million or a growth of 7,099.06% as compared with the previous year.

The manufacturing operations

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

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

During the Reporting Period, the Group continued to promote technological innovation by increasing investment in scientific and technological research and developing innovative products and technological upgrade.

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

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

During the Reporting Period, the Group persisted in launching the safety production and responsibility policy so as to comprehensively improve the management of product quality, protect the environment and promote our sustainable development. The Group also launched the accountability system for production safety management, set up comprehensive rules and policies in order to strengthen the management on production and operation safety.

In the meantime, the Group also concerned about environmental protection. It actively complied with the laws and regulations regarding environmental protection, clean production and energy saving, enhanced the efficiency of use of resources and energy, lowered production costs and reduced pollution, achieved emission standard of the “three pollutants” and controlled the total emission of pollutants within the standard set by the relevant government authorities.

The trading operations

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

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

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

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

Principal activities or major products	Revenue from principal operations (RMB'000)	Cost of principal operations (RMB'000)	Operating profit margin of principal operations (%)	Change in revenue from principal operations as compared with 2008 (%)	Change in costs from principal operations as compared with 2008 (%)	Change in profit from principal operations as compared with 2008 (%)
<i>Principal operations:</i>						
Manufacturing	1,948,779	1,085,028	43.43	6.19	11.53	With a decrease of 2.70 percentage points
Trading	1,853,644	1,706,409	7.81	14.75	15.78	With a decrease of 0.89 percentage point
<i>Including:</i>						
Pharmaceutical trading	1,513,283	1,369,179	9.37	5.95	6.36	With a decrease of 0.44 percentage point
Other trading	340,361	337,230	0.90	81.96	80.81	With an increase of 0.63 percentage point
<i>Products:</i>						
Heat clearing and antitoxic medicine	212,072	122,171	41.50	(4.33)	(0.68)	With a decrease of 2.15 percentage points
Diabetic medicine	455,791	192,695	56.83	5.08	25.18	With a decrease of 6.82 percentage points
Cough and phlegm clearing medicine	229,975	115,186	49.02	(8.19)	(5.05)	With a decrease of 1.69 percentage points
Arthritic medicine	253,586	121,456	51.21	15.73	10.98	With an increase of 2.02 percentage points
Gastric medicine	66,127	36,249	44.29	14.42	14.08	with an increase of 0.13 percentage point
Other products	731,228	497,271	31.10	12.08	14.75	With a decrease of 1.61 percentage points

6.3 Geographical analysis of principal business

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

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

Name of enterprises	Percentage of direct holding the Company (%)	Revenue from principal operation (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	149,403	(52,261)	(45,779)
Zhong Yi	100.00	620,228	86,851	76,838
Chen Li Ji	100.00	226,066	22,783	19,532
Qi Xing	75.00	270,115	9,080	7,176
Jing Xiu Tang	88.40	192,455	10,205	8,488
Pan Gao Shou	87.77	237,101	2,106	3,338
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	32,499	(93)	(93)
Guangzhou Bai Di Bio-technology Co., Ltd ("Guangzhou Bai Di")	97.26	1,505	(8,395)	(8,395)
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd ("Guangzhou Han Fang")	97.04	75,443	(14,983)	(14,983)
Cai Zhi Lin	100.00	1,379,234	10,004	8,171
Guangzhou Pharmaceutical Import & Export Corporation	100.00	269,343	(1,198)	(998)

Name of enterprises	Percentage of direct holding the Company (%)	Revenue from principal operation (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(2) Branches				
Ying Bang Branch Company of Guangzhou Pharmaceutical Co., Ltd	–	742,394	5,332	5,332
(3) Joint ventures				
Wang Lao Ji (<i>Note i</i>)	48.05	1,485,529	187,983	164,009
GP Corp. (<i>Note ii</i>)	50.00	11,310,827	159,258	111,199
Guangzhou Nuo Cheng Bio-Tech Co., Ltd. ("Nuo Cheng") (<i>Note iii</i>)	50.00	42,016	2,048	2,048

Notes:

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

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

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

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

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

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

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

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

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

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

6.10 Financial resources

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

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

6.11 Capital structure

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

6.12 Capital expenditure

The Group expects the capital expenditure for 2010 to amount to approximately RMB124 million (2009: RMB67 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

6.13 Gearing ratio

As at 31 December 2009, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 19.44%, with a decrease of 2.49 percentage points as compared with 2008 (as at 31 December 2008: 21.93%).

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

6.16 Contingent liabilities

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

6.17 Charge on the Group's assets

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

6.18 Employees of the Group

As at 31 December 2009, the number of employees on the payroll register of the Group were 5,563, including:

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

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

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

6.19 Development outlook

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

The implementation of the national new medical reform will intensively affect the domestic pharmaceutical market. The reform will further expand the domestic

pharmaceutical market and create opportunities for its development. However, a higher standard will be set for product innovation, brand image, technological advancement, marketing innovation and consolidation of distribution channels.

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

1. To accommodate the market changes, continuously strengthen the innovation of marketing modes, proactively participate in various medical reform-related tasks, create and seize more market opportunities brought by the medical reform.
2. To continuously expedite technology innovation, promote technological advancement, proactively strengthen self-innovation, increase investment on the R & D of new medicines and the further development of famous proprietary Chinese medicines, and enhance core competitiveness of the Company.
3. To further strengthen the fundamental management, further regulate the corporate operation, lower operational risks; also to promote internal audit and control with great effort, strengthen budget management, and enhance its own risk aversion.
4. To introduce various measures such as resources integration and optimize allocation progressively, promote scale of economy and synergy effect, develop core competitiveness, and enhance the overall profitability of the Group.

7 MAJOR EVENTS

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

1. The formalities in relation to the merger of Guangzhou Han Fang and Guangzhou Huan Ye Pharmaceutical Co., Ltd. ("Guangzhou Huan Ye") were completed in the Reporting Period.
2. On 27 March 2009, the Company and Guangzhou Pharmaceutical Soccer Club Limited ("GPSC") entered into the agreement in relation to the Advertising Connected Transactions for connected transactions business conducted in the ordinary course of business. The Agreement in relation to the Advertising Connected Transactions and the transactions contemplated thereunder were approved by the Board of the Company.
3. On 27 March 2009, the Company and GP Corp. together with Wang Lao Ji entered into the agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions contemplated thereunder were approved by the Board and at the 2008 annual general meeting of the Company.

4. In August 2008, it was approved by the Board for the Company to contribute RMB5 million for the establishment of Huanan XinYao Chuangzhi Co., Ltd. During the Reporting Period, the Company paid the last installment in accordance with the contract.
5. On 30 January 2010, the Company's six subsidiaries and its joint venture, namely Wang Lao Ji signed the Agreement in relation to Equity Transfer of GPSC, pursuant to which the 50% equity interest held therein were transferred to Guangzhou Soccer Development Center, which amounted to RMB20,032,800, with reference to the evaluation of GPSC as at 31 December 2009.
6. After the Reporting Period, it was approved by the Strategic Development and Investment Committee of the Company, that the Company acquired 1.22% equity interest in Guangzhou Bai Di held by individual shareholders at a consideration of RMB1.60 million. Upon the completion of the above acquisition, the contribution to Guangzhou Bai Di by the Company will amount to RMB12,960,000, representing 98.48% equity interest therein.

7.2 Major guarantees

Applicable Not applicable

Guarantees provided to parties other than the Company's subsidiaries

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

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 to amount of similar transactions (%)	Amount (RMB'000)	Ratio to amount of similar transactions (%)
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	37,276	0.98	40,478	1.63
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	37,729	0.99	1,435	0.06
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	4,417	0.12	113	–
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	48,892	1.29	50,639	2.04
Po Lian Development Co., Ltd	1,732	0.05	51,741	2.08
Guangzhou Pharmaceutical Industrial Research Institute	2	–	–	–
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	28,116	0.74	136	0.01
GP Corp.	176,512	4.64	70,416	2.83
Wang Lao Ji	46,351	1.22	2,057	0.08
Nuo Cheng	190	–	–	–
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd	–	–	1,122	0.05
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd	23	–	–	–
GPSC	–	–	20,597	18.50
Total	381,240	10.03	238,734	27.28

During the Reporting Period, connected transactions of sales of products or provision of services from the Group to other connected parties amounted to RMB381,240,000.

7.3.2 Non-operational provision of capital to/from connected parties

Applicable Not applicable

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

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

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 SSE shall not exceed 5% of the total number of shares of the Company within 12 months after expiry of the above stipulated term and shall not exceed 10% within 24 months.	Complied 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 Stock	Stock Code	Stock name	The initial investment amount (RMB'000)	Number of shares held as at the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investments as at the end of the Reporting Period	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of Shanghai market	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	1,222	23	707
2	A Share of Shanghai market	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	4,110	77	1,754
Other stock investments held as at the end of the Reporting Period				-	-	-	-	-
Gain/(Loss) of stock investments sold as at the end of the Reporting Period				-	-	-	-	-
Total				5,511	280,356	5,332	100	2,461

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	-	2,476	12	996	Financial assets available for sale	Subscription

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 (%)	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	approximately 0.02	10,725	464	-	Long-term investment	Subscription
Golden Eagle Fund Management Co., Ltd.	20,000	-	20.00	12,817	(2,700)	-	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 the 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 Preparation of 2009 Annual Report of Listed Companies" released by to oversee the auditing work for 2009 and the preparation of the annual report.

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

- (i) convening two meetings in 2009 to review the 2008 Annual Report and 2009 Interim Report of the Group as well as the recommendations on management issued by external auditors and the responses by the Company's management. Each of the members of the committee attended all the meetings.
- (ii) evaluating the accounting policies adopted by the Group and the relevant issues regarding accounting practice.
- (iii) re-appointing 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.

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

After the issuance of the “Notice on Preparation of 2009 Annual Report of Listed Companies”, 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 2009 and preparatory work for the annual report of the Company, which included the following:

- (i) The Committee worked closely with the domestic and international auditors of the Company and the Company’s Finance Department regarding the time for audit and the relevant arrangements and set out the “Framework for the Preparation of 2009 Annual Report” and reviewed the audit plan submitted by the auditors.
- (ii) The Committee reviewed the draft of the financial reports prepared by the Company on 10 March 2010 and issued written recommendations thereon.
- (iii) After the issuance of initial opinions by the domestic and international auditors, the Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Committee believed that the 2009 Financial Reports of the Company reflected the state of affairs of the Company truly, accurately and fair, and agreed to submit the reports to the Board for approval.
- (iv) On 19 March 2010, the Audit Committee convened the first meeting for 2010 and considered and passed the 2009 Annual Report of the Company and the Company’s 2009 Financial Statements. At the same time, the Audit Committee summed up its evaluation on the audit work of the domestic and international auditors and believed 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 Listing Rules, the Board was of the opinion that 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 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 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 2009 were audited by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report (2010 Yang Cha Zi No.18460) signed by the two Chinese certified public accountants, Mr. Huang Weicheng and Ms. Wu Changhua, and by PricewaterhouseCoopers, Certified Public Accountants, who has issued unqualified auditors' reports thereon.

9.2 Financial Reports (prepared in accordance with HKFRS)

Consolidated balance sheet

	As at 31 December	
	2009	2008
	(RMB'000)	(RMB'000)
ASSETS		
Non-current assets		
Property, plant and equipment	1,226,498	1,311,088
Investment properties	190,981	135,426
Leasehold land and land use rights	93,251	97,164
Intangible assets	11,855	12,162
Investments in associates	18,222	19,695
Investments in jointly controlled entities	876,435	787,580
Available-for-sale financial assets	34,506	16,272
Deferred income tax assets	47,077	47,222
	2,498,825	2,426,609
Current assets		
Inventories	560,522	633,059
Trade and other receivables	9.2.5 650,678	869,066
Financial assets at fair value through profit or loss	31,332	3,008
Taxes recoverable	10,716	41,788
Restricted cash	29,549	15,275
Cash and cash equivalents	667,385	365,859
	1,950,182	1,928,055
Total assets	4,449,007	4,354,664

		As at 31 December	
	<i>Note</i>	2009 <i>(RMB'000)</i>	2008 <i>(RMB'000)</i>
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital		810,900	810,900
Share premium		781,134	781,134
Other reserves		1,024,061	984,490
Retained earnings			
– Proposed final dividend		40,545	32,436
– Others		793,362	636,345
		3,450,002	3,245,305
Minority interest		113,664	115,460
Total equity		3,563,666	3,360,765
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		55,833	46,959
Government grants		19,503	13,525
Employee benefits payable		13,629	25,124
Borrowings		–	30,000
		88,965	115,608
Current liabilities			
Trade and other payables	9.2.6	722,456	628,926
Dividend payables		65	58
Current income tax liabilities		10,485	6,032
Borrowings		63,370	243,275
		796,376	878,291
Total liabilities		885,341	993,899
Total equity and liabilities		4,449,007	4,354,664
Net current assets		1,153,806	1,049,764
Total assets less current liabilities		3,652,631	3,476,373

Consolidated income statement – by function of expense

	<i>Note</i>	Year ended 31 December	
		2009 <i>(RMB'000)</i>	2008 <i>(RMB'000)</i>
Revenue	9.2.2	3,802,423	3,450,586
Cost of sales		(2,791,437)	(2,446,620)
Gross profit		1,010,986	1,003,966
Other income	9.2.7	106,138	95,223
Other gains – net	9.2.8	4,680	100,146
Other operating expenses		(10,711)	(10,544)
Selling and marketing costs		(585,437)	(626,191)
Administrative expenses		(423,442)	(452,603)
Operating profit		102,214	109,997
Share of losses of associates		(1,473)	(5,171)
Share of profits of jointly controlled entities		135,647	111,540
Finance income	9.2.10	9,033	11,370
Finance costs	9.2.10	(10,253)	(19,184)
Profit before income tax		235,168	208,552
Income tax expense	9.2.11	(22,491)	(37,256)
Profit for the year		212,677	171,296
Profit attributable to:			
Shareholders of the Company		214,900	181,829
Minority interest		(2,223)	(10,533)
		212,677	171,296
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)			
– basic and diluted	9.2.3	0.265	0.224
Dividends	9.2.4	40,545	32,436

Consolidated statement of comprehensive income

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

9.2.1 Change in accounting policy and disclosures

New and amended standards adopted by the Group

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

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

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

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

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

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

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

9.2.2 Segment information

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

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

- Manufacturing: manufacture and sale of the Group’s own CPM on a wholesale basis;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine;

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

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

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

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

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

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

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

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

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

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

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

Reconciliations of material items are provided as follows:

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

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

A reconciliation of profit after tax is provided as follows:

	Year ended 31 December	
	2009 (RMB'000)	2008 (RMB'000)
Profit for reportable segments	54,990	8,197
Profit for other segments	1,889	(132)
	56,879	8,065
Corporate income and expenses		
– Other income	31,147	35,896
– Other gains-net	8,650	79,051
– Corporate expenses	(18,056)	(34,333)
– Dividend income from subsidiaries	32,622	182,101
– Depreciation and amortisation	(1,544)	(7,850)
– Provision for trade and other receivables impairment	(122)	(2)
– Write back of provision for trade and other receivables impairment	140	2
– Finance income	6,236	8,874
– Finance cost	(1,284)	(3,360)
– Share of post-tax losses from associates	(2,730)	(288)
– Share of post-tax profits from jointly controlled entities	135,647	111,540
– Income tax expense	(9,483)	(16,480)
Elimination	(25,425)	(191,920)
Profit for the year	212,677	171,296

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

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

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

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

Breakdown of revenue from all services is as follows:

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

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

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

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

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

9.2.3 Earnings per share

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

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

9.2.4 Dividends

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

At a meeting held on 26 March 2010, the directors declared a final dividend of RMB0.05 per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

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

9.2.5 Trade and other receivables

	Group	
	2009	2008
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Trade receivables (Note a)	388,574	512,640
Less: provision for impairment of trade receivables	(36,011)	(54,669)
Trade receivables – net	352,563	457,971
Bills receivables	160,027	156,650
Prepayments	96,831	56,473
Other receivables	41,257	47,972
Loans to a jointly controlled entity	–	150,000
	<u>650,678</u>	<u>869,066</u>

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

	Group	
	2009	2008
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Within 6 months	340,644	415,753
6 months to 1 year	12,247	36,907
Over 1 year	35,683	59,980
	<u>388,574</u>	<u>512,640</u>

9.2.6 Trade and other payables

	Group	
	2009	2008
	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Trade payables (note a)	337,272	335,668
Payroll and welfare payables	69,447	69,165
Government grants	60,811	62,523
Payables for equipment and construction in progress	19,041	39,679
Deposits received	16,076	22,151
Advances from customers	121,348	18,036
Accruals	13,593	37,033
Other taxes payables	25,244	1,908
Others	59,624	42,763
	<u>722,456</u>	<u>628,926</u>

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

	Group	
	2009	2008
	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Within 3 months	310,896	276,068
3 months to 1 year	17,469	36,922
1 year to 2 years	4,783	17,447
Over 2 years	4,124	5,231
	<u>337,272</u>	<u>335,668</u>

9.2.7 Other income

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

9.2.8 Other gains-net

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

9.2.9 Operating Profit

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

	2009 <i>(RMB'000)</i>	2008 <i>(RMB'000)</i>
Depreciation and amortisation	114,985	119,492

9.2.10 Finance income and costs

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

9.2.11 Income tax expense

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

	2009 (RMB '000)	2008 (RMB '000)
Current income tax	21,114	31,690
Deferred income tax	1,377	5,566
	<u>22,491</u>	<u>37,256</u>

9.3 Explanation on possible changes in accounting policies, estimation and audit method when compared with the 2008 annual report.

Applicable Not applicable

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

Guangzhou Han Fang and Guangzhou Huan Ye, subsidiaries of the Company, entered into a merger agreement on 10 January 2007, according to which, Guangzhou Han Fang merged Guangzhou Huan Ye in 2009. Currently, the formalities in relation to the cancellation of administrative registration of Guangzhou Huan Ye are in process. Therefore, the subsidiaries which were included in the consolidation scope of the Group for the Reporting Period decreased by one company.

The Board of
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 26 March 2010

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.