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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 2010 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 2010 annual report of the Company, which will both be published at the website (<http://www.sse.com.cn>) of The Shanghai Stock Exchange (the “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 2010 annual report carefully.
- 1.3 The directors of the Board attended the 6th meeting of the fifth session of the Board held on 25 March 2011, among whom, Mr. Wong Lung Tak Patrick, an independent non-executive director, attended the meeting by means of telephone communication; Mr. Liu Jinxiang and Mr. Qiu Hongzhong, independent non-executive directors, were unable to attend the meeting personally and respectively appointed Mr. Li Shanmin and Mr. Zhang Yonghua, independent non-executive directors, 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 2010 (the “Reporting Period” or the “Year”) and issued unqualified auditors’ reports thereon.
- 1.5 Mr. Yang Rongming (chairman of the Board), Mr. Wu Changhai (director and general manager), and Mr. Chen Binghua (financial controller and senior manager of the Finance Department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this summary.

- 1.6 There has no non-operational appropriation of funds of the Company by its connected parties.
- 1.7 The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- 1.8 The financial data quoted in this summary were all prepared in accordance with the Accounting Standards of the PRC (the “PRC Accounting Standards”) unless otherwise specified.
- 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 Hong Kong Financial Reporting Standards (“HKFRS”), the Chinese version shall prevail.
- 1.10 All the information required to be contained in the summary of 2010 annual report of the Company pursuant to paragraph 45 and 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 |
| 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 Xuezhen |
| Address | 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC | |
| Telephone | (8620) 8121 8084 | (8620) 8121 8119 |
| Fax | (8620) 8121 6408 | |
| E-mail | pangjh@gpc.com.cn | huangxz@gpc.com.cn |

3 FINANCIAL DATA AND INDICATORS

3.1 Principal financial data

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

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

3.2 Principal financial indicators

| | 2010 | 2009 | Year on year increase/ (decrease) (%) | 2008 |
|--|---------------------------------------|------------------------------|---|------------------------------|
| Basic earnings per share (<i>RMB</i>) | 0.329 | 0.260 | 26.60 | 0.225 |
| Diluted earnings per share (<i>RMB</i>) | 0.329 | 0.260 | 26.60 | 0.225 |
| Basic earnings per share after deducting non-operating items (<i>RMB</i>) | 0.288 | 0.193 | 48.91 | 0.108 |
| Fully diluted return on net assets ratio (%) | 7.55 | 6.39 | An increase of 1.16 percentage points | 5.84 |
| Weighted average return on net assets ratio (%) | 7.81 | 6.56 | An increase of 1.25 percentage points | 5.88 |
| Ratio of fully diluted return on net assets after deducting non-operating items (%) | 6.59 | 4.74 | An increase of 1.85 percentage points | 2.81 |
| Ratio of weighted return on net assets after deducting non-operating items (%) | 6.82 | 4.87 | An increase of 1.95 percentage points | 2.83 |
| Net cash flow from operating activities per share (<i>RMB</i>) | 0.09 | 0.54 | (83.35) | 0.01 |
| | As at 31 December 2010 | As at 31 December 2009 | Year on year increase/ (decrease) (%) | As at 31 December 2008 |
| Net assets per share attributable to the shareholders of the Company (<i>RMB</i>) | 4.36 | 4.07 | 7.12 | 3.85 |

Non-operating items Applicable Not applicable

| Items | Amount <i>(RMB'000)</i> |
|---|-----------------------------------|
| Gain on disposal of non-current assets | 3,740 |
| Government subsidies recognized as gain | 25,792 |
| Changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets | 2,435 |
| Write back of provision for impairment of accounts receivable undergoing independent impairment test | 8,191 |
| Loss from entrusted loans | (512) |
| Other non-operating income and expenses excluding the above items | (1,374) |
| Income tax effect | (2,139) |
| Effect on non-controlling interest | (2,189) |
| Total | 33,944 |

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

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

Applicable Not applicable

| | As at 31 December 2010 <i>(RMB '000)</i> | As at 31 December 2009 <i>(RMB '000)</i> |
|--|---|---|
| Net assets attributable to shareholders of the Company under the PRC Accounting Standards | 3,539,369 | 3,304,186 |
| Difference arising from fixed assets revaluation | 98,028 | 102,995 |
| Revaluation of investment properties | 130,559 | 97,257 |
| Revaluation of investment on China Everbright Bank Company Limited | – | 15,523 |
| Net effect of deferred tax | (56,448) | (53,512) |
| Difference in non-controlling interests | (17,786) | (16,447) |
| | <hr/> | <hr/> |
| Net assets attributable to shareholders of the Company under HKFRS | 3,693,722 | 3,450,002 |
| | <hr/> <hr/> | <hr/> <hr/> |
| | For the year ended | |
| | 31 December | |
| | <hr/> | <hr/> |
| | 2010 | 2009 |
| | <i>(RMB '000)</i> | <i>(RMB '000)</i> |
| Net profit attributable to shareholders of the Company under the PRC Accounting Standards | 267,112 | 210,989 |
| Additional depreciation on revalued fixed assets | (4,967) | (4,967) |
| Government subsidies recognized as deferred income through profit and loss | – | 2,387 |
| Difference arising from investment properties in cost model and fair value model | 23,005 | 2,634 |
| Net effect of deferred tax | (4,210) | 4,099 |
| Difference in non-controlling interests | (1,343) | (242) |
| | <hr/> | <hr/> |
| Net profit attributable to shareholders of the Company under HKFRS | 279,597 | 214,900 |
| | <hr/> <hr/> | <hr/> <hr/> |

3.4 Accounts prepared in accordance with HKFRS

| Items | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Turnover (<i>RMB'000</i>) | 4,403,098 | 3,802,423 | 3,450,586 | 11,873,514 | 10,049,091 |
| Profit before income tax (<i>RMB'000</i>) | 339,707 | 235,168 | 208,552 | 449,710 | 349,155 |
| Net profit attributable to shareholders of the Company (<i>RMB'000</i>) | 279,597 | 214,900 | 181,829 | 320,343 | 218,067 |
| Earnings per share (<i>RMB</i>) | 0.345 | 0.265 | 0.224 | 0.395 | 0.269 |
| | As at | As at | As at | As at | As at |
| | 31 December | 31 December | 31 December | 31 December | 31 December |
| Items | 2010 | 2009 | 2008 | 2007 | 2006 |
| Total assets (<i>RMB'000</i>) | 4,705,759 | 4,449,007 | 4,354,664 | 6,351,721 | 5,610,740 |
| Total liabilities (<i>RMB'000</i>) | 892,252 | 885,341 | 993,899 | 2,934,329 | 2,530,360 |
| Capital and reserves attributable to shareholders of the Company (<i>RMB'000</i>) | 3,693,722 | 3,450,002 | 3,245,305 | 3,168,021 | 2,897,389 |
| Capital and reserves per share attributable to shareholders of the Company (<i>RMB</i>) | 4.56 | 4.25 | 4.00 | 3.91 | 3.57 |
| Return on capital and reserves attributable to shareholders of the Company (%) | 7.57 | 6.23 | 5.60 | 10.11 | 7.53 |
| Ratio of capital and reserves attributable to shareholders of the Company to total assets (%) | 78.49 | 77.55 | 74.52 | 49.88 | 51.64 |
| Gearing ratio (%) (<i>Note</i>) | 18.96 | 19.90 | 22.82 | 46.20 | 45.10 |

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

Applicable Not applicable

4.1.2 Changes of shares with selling restrictions

Applicable Not applicable

4.2 The Company's top ten shareholders

Total number of shareholders as at the end of the Reporting Period 24,928

| 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) |
|--|------------------|--|--|--|--|---|
| Guangzhou Pharmaceutical Holdings Limited ("GPHL") | Domestic shares | 0 | 390,833,391 | 48.20 | Nil | Nil |
| HKSCC Nominees Limited | H shares | 2,000 | 219,199,299 | 27.03 | Nil | Unknown |
| Guangzhou Beicheng Rural Credit Cooperative | Domestic shares | (22,290,000) | 13,952,000 | 1.72 | Nil | Unknown |
| Zhonghai Trust Co., Ltd. – Pujiang Star No.6 Capital Trust Scheme | Domestic shares | 5,497,403 | 5,497,403 | 0.68 | Nil | Unknown |
| CCB-Industrial Social Responsibility Securities Investment Fund | Domestic shares | 5,000,000 | 5,000,000 | 0.62 | Nil | Unknown |
| Li Fang | Domestic shares | 4,425,396 | 4,425,396 | 0.55 | Nil | Unknown |
| CCB-Fidelity Blue Chip Vote Prime Securities Investment Fund | Domestic shares | 3,590,489 | 3,590,489 | 0.44 | Nil | Unknown |
| CITIC Trust Co., Ltd. – The Eighth Calm growing | Domestic shares | 2,551,900 | 2,551,900 | 0.31 | Nil | Unknown |
| Bank of China-Huatai-Pine Bridge Golden Age of Chinese Stock Open Securities Investment Fund | Domestic shares | 2,315,893 | 2,315,893 | 0.29 | Nil | Unknown |
| Yinfeng Securities Investment Fund | Domestic shares | 2,291,980 | 2,291,980 | 0.28 | Nil | Unknown |

Explanation on the connection among the above shareholders or persons acting in concert

- (1) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (2) The Company was not aware of any connection among the above top ten 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

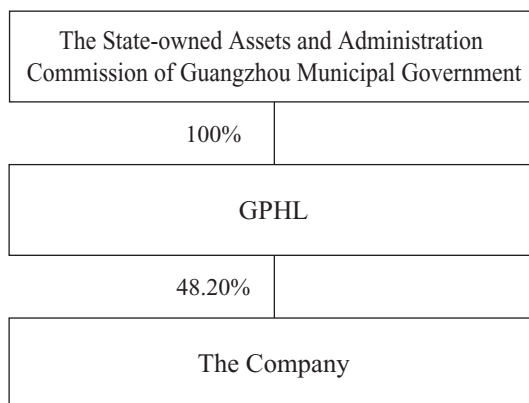
4.3.1 Information of the changes in the controlling shareholder and its beneficial owner of the Company

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 | RMB1,252.8 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 directors', supervisors' and senior management's interests in A shares of the Company and their emoluments

| Name | Position | Gender | Age | Shares held | | Reason for change | Share options granted in 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 | |
|-----------------------|--|--------|-----|--|--------------------------------------|-------------------|---|---|---------------------------------------|--|--|----------------|
| | | | | as at the beginning of the Year (share) | as at the end of the Year (share) | | 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 | 57 | 0 | 0 | - | - | Nil | Nil | Nil | Nil | Yes |
| Li Chuyuan | Vice chairman | Male | 45 | 0 | 0 | - | - | Nil | Nil | Nil | Nil | Yes |
| Shi Shaobin | Executive director | Male | 43 | 0 | 0 | - | 326 | Nil | Nil | Nil | Nil | Yes |
| Wu Changhai | Executive director, general manager | Male | 45 | 0 | 0 | - | 258 | Nil | Nil | Nil | Nil | No |
| Liu Jinxiang | Independent non-executive director | Male | 70 | 0 | 0 | - | 80 | Nil | Nil | Nil | Nil | No |
| Li Shanmin | Independent non-executive director | Male | 48 | 0 | 0 | - | 80 | Nil | Nil | Nil | Nil | No |
| Zhang Yonghua | Independent non-executive director | Male | 52 | 0 | 0 | - | 80 | Nil | Nil | Nil | Nil | No |
| Wong Lung Tak Patrick | Independent non-executive director | Male | 62 | 0 | 0 | - | 40 | Nil | Nil | Nil | Nil | No |
| Qiu Hongzhong | Independent non-executive director | Male | 54 | 0 | 0 | - | 40 | Nil | Nil | Nil | Nil | No |
| Feng Zansheng | Executive director (resigned on 11 May 2010) | Male | 60 | 0 | 0 | - | - | Nil | Nil | Nil | Nil | Yes |
| Wong Hin Wing | Independent non-executive director (ceased to be director on 28 June 2010) | Male | 48 | 0 | 0 | - | 40 | Nil | Nil | Nil | Nil | No |
| Yang Xiuwei | Chairlady of Supervisory Committee | Female | 52 | 0 | 0 | - | - | Nil | Nil | Nil | Nil | Yes |
| Wu Quan | Supervisor | Male | 54 | 0 | 0 | - | 410 | Nil | Nil | Nil | Nil | No |
| Zhong Yugan | Supervisor | Male | 55 | 0 | 0 | - | 30 | Nil | Nil | Nil | Nil | No |
| Su Guangfeng | Deputy general manager | Male | 46 | 0 | 0 | - | 205 | Nil | Nil | Nil | Nil | No |
| Chen Binghua | Financial controller | Male | 45 | 6,240 | 6,240 | - | 345 | Nil | Nil | Nil | Nil | No |
| Pang Jianhui | Secretary to the Board | Male | 38 | 0 | 0 | - | 343 | Nil | Nil | Nil | Nil | No |
| Total | / | / | / | <u>6,240</u> | <u>6,240</u> | / | <u>2,277</u> | / | / | / | / | / |

Notes:

1. Mr. Yang Rongming, Mr. Li Chuyuan, Mr. Shi Shaobin, Mr. Wu Changhai, Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, directors of the Company, have a term of office commencing from 28 June 2010 to the date when members of the new session of the Board are elected.
2. Ms. Yang Xiuwei, Mr. Wu Quan and Mr. Zhong Yugan, the supervisors of the Company, have a term of office commencing from the 28 June 2010 to the date when members of the new session of the Supervisory Committee 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

Operation review

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

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

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

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

| Item | 2010 <i>(RMB'000)</i> <i>(Audited)</i> | 2009 <i>(RMB'000)</i> <i>(Audited)</i> | Increase/ (Decrease) <i>(YOY)</i> <i>(%)</i> |
|------|---|--|---|
|------|---|--|---|

Prepared in accordance with the PRC Accounting Standards

| | | | |
|---|------------------|-----------|-------|
| Income from principal operations | 4,403,098 | 3,802,423 | 15.80 |
| Operating profit | 298,016 | 207,077 | 43.92 |
| Total profit | 321,341 | 231,331 | 38.91 |
| Net profit attributable to shareholders of the Company | 267,112 | 210,989 | 26.60 |

Prepared in accordance with HKFRS

| | | | |
|---|------------------|-----------|-------|
| Turnover | 4,403,098 | 3,802,423 | 15.80 |
| Profit before income tax | 339,707 | 235,168 | 44.45 |
| Net profit attributable to shareholders of the Company | 279,597 | 214,900 | 30.11 |

(1) The manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, we improved the management on distributors, kept on optimizing and integrating the marketing channels, implemented control on sales channels, strengthened the pricing mechanism, enhanced the activeness of distributors and retailers, leading to the steady growth in product sales. Secondly, we focused on sales innovation, continuously strengthened end market operation, strategically focused on the four end markets, namely hospital, OTC, communities and areas under the New Rural Cooperative Medical System and put efforts on developing and sustaining the markets in focused areas in order to effectively boost the sales driven by end markets. Thirdly, we reinforced works on government affairs, paid close attention to the changes resulted from pharmaceutical reform and actively studied new medical reform policies. Satisfactory results were seen in the areas of basic list of medicines, list of medicines and insurance, medicine pricing and product bidding. Fourthly, we reinforced brand building and strengthened marketing and promotion. Through the launching of researches on “Genetic Chinese Medicine” and Anti “Super Bacteria” Pharmaceutical Products, the successful application of the Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd. (“Chen Li Ji”) for the recognition as the “World’s Most Long-standing Pharmaceutical Enterprise” together with such events as the “Asian Games Promotion” and the “Centennial Factory Celebration” for our traditional pharmaceutical brands in China, we enhanced brand and product mix promotion to increase brand value and gain popularity

and reputation for our products, driving the growth in product sales. Fifth, in response to the price increase in most medicine and materials since 2010, the subsidiaries of the Group were well prepared to sooth the pressure thus on cost for the Year through the measures of building reserves for the lacking medicine in advance, enhancing cooperation with medicine merchandisers, merchandise bidding and quality and price comparison over the market.

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

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

During the Reporting Period, the Group vigorously promoted technological innovation by expediting innovative products development and technological upgrade, and thereby, the business growth of the Group continued to be driven up. During the Reporting Period, the Company's application of Scaling-up Technological Platform of TCM Extraction and Separation Key Technologies passed the assessment by experts, and obtained government subsidy for key technological projects. The Iia clinical research of the therapeutic dual-plasmid HBV DNA vaccine was completed in the Year, and the Company is actively preparing for the Iib clinical research. Guangzhou Zhong Yi Pharmaceutical Co., Ltd. ("Zhong Yi") received the honor of "Top 100 Enterprises in Technological Innovation" by Guangdong Science and Technology Department and became the leading enterprise among the emerging strategic industries in Guangzhou City. Zhong Yi also established a new technological innovation management system with the Research and Development Center for Diabetes Medicine of Guangdong Province as its base. It saw a substantial achievement in certain projects jointly conducted with China's well-established research institutes regarding the integration of production, learning, research and governments. Zhong Yi applied for one invention patent of Xiao Ke Wan's prescription and manufacturing processes, which was rewarded the National Outstanding Patent Prize, one invention patent of quality standard, five patents of utility model and one design patent in respect of its Xiao Ke Wan, gradually formulating a comprehensive protection system of intellectual property rights in order to fully protect the core intellectual property right of Xiao Ke Wan. In addition, the Xin Yi

Bi Yan Wan of Zhong Yi was successfully listed as the national Chinese medicine under protection by the State Food and Drugs Administration for a protection period of 7 years. The Dan Bie Jiao Nang of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. (“Pan Gao Shou”) was granted the 2010 Second Prize in Technological Advancement by China Association of Chinese Medicine. The technological equipment for the critical purification of CO₂ technology and the application and industrialization of the technology in natural medicine, which was developed by Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. (“Guangzhou Han Fang”), was awarded the Guangdong Provincial First Prize in Technology. The award demonstrated the remarkable achievement of technological innovation by “National Engineering Research Center of Chinese Medicine Modernization of Extraction and Separation Process”.

The Company’s six subsidiaries, namely Zhong Yi, Chen Li Ji, Guangzhou Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”), Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Guangzhou Qi Xing Pharmaceutical Co., Ltd. (“Qi Xing”) and Pan Gao Shou and its joint venture namely Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”) obtained the “Certificate of Advanced Technology Enterprise of Guangdong Province” in 2008, which are effective for three years, and Guangxi Ying Kang Pharmaceutical Co., Ltd. (“Guangxi Ying Kang”) obtained the “Certificate of Advanced Technology Enterprise of Guangxi Autonomous Region” in 2009, which is effective for three years. According to relevant regulations, they are entitled to preferential tax policies during the Year. In addition, Guangzhou Han Fang obtained the “Certificate of Advanced Technology Enterprise of Guangdong Province” in September 2010, which is effective for three years.

During the Reporting Period, the Group persisted in launching the safety production and responsibility policy so as to comprehensively improve the management of product quality, protect the environment and promote our sustainable development. The Group also launched the accountability system for production safety management, set up comprehensive rules and policies in order to strengthen the management on production and operation safety. The Group also guaranteed production quality strictly, carried out the work relating to production and management complying with GMP and GSP etc. quality management system, advanced quality licensor management system so as to improve quality management system and production quality management legal compliance. In the meantime, the Group also concerned about environmental protection. It actively complied with the laws and regulations regarding environmental protection, clean production and energy saving, enhanced the efficiency of use of resources and energy, lowered production costs, reduced pollution, achieved emission standard of the “three pollutants” and controlled the total emission of pollutants within the standard set by the relevant government authorities.

(2) *The trading operations*

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

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

As at 31 December 2010, the Group had 52 retail chain pharmacy outlets, including 51 “Cai Zhi Lin” which specialized in traditional Chinese medicines and 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 | Income from principal operations (RMB'000) | Costs of principal operations (RMB'000) | Gross profit margin of operations (%) | Change in income from operations as compared with 2009 (%) | Change in costs of operations as compared with 2009 (%) | Change in profit margin of operations as compared with 2009 (Percentage point) |
|---|---|--|--|---|--|---|
| <i>Principal operations:</i> | | | | | | |
| Manufacturing | 2,188,600 | 1,141,424 | 47.02 | 12.31 | 5.20 | 3.60 |
| Trading | 2,214,498 | 2,047,149 | 7.45 | 19.47 | 19.97 | (0.36) |
| <i>Include:</i> | | | | | | |
| Pharmaceutical trading | 1,706,025 | 1,543,598 | 9.39 | 12.74 | 12.74 | 0.02 |
| Other trading | 508,473 | 503,551 | 0.95 | 49.39 | 49.32 | 0.05 |
| <i>Products:</i> | | | | | | |
| Heat clearing and antitoxic medicine | 280,827 | 158,532 | 42.72 | 32.42 | 29.76 | 1.23 |
| Diabetic medicine | 493,493 | 188,931 | 60.89 | 7.24 | (2.79) | 4.02 |
| Cough and phlegm clearing medicine | 282,505 | 139,305 | 49.86 | 20.66 | 17.51 | 1.39 |
| Arthritic medicine | 259,953 | 123,306 | 51.74 | 2.51 | 1.52 | 0.53 |
| Gastric medicine | 69,403 | 34,370 | 49.65 | 4.95 | (5.18) | 5.37 |
| Other products | 802,419 | 496,980 | 37.24 | 11.03 | 0.96 | 6.25 |

6.3 Geographical analysis of principal business

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

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

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

Notes:

- (a) Upon the restructuring of the former Guangzhou Pharmaceutical Import & Export Corporation and Guangzhou Chen Li Ji Pharmaceutical Factory as a limited company in 2010, they were renamed as "Guangzhou Pharmaceutical Import & Export Co., Ltd." and "Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd." in March 2010 and July 2010 respectively.
- (b) The results of Wang Lao Ji were stated in full amount in the above table.

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

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

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

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

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

6.5 Use of proceeds from issue of shares

Applicable Not applicable

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

Change in projects

Applicable Not applicable

6.6 Proceeds not from issue of 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

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

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

The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with PRC Accounting Standards and the amount determined in accordance with HKFRS. The Board recommended a final dividend of RMB0.05 per share (including tax) for the year ended 31 December 2010 (2009: RMB0.05 per share) totaling RMB40,545,000.00, and the retained earnings for the year 2010 amounting to RMB949,313,636.46 was transferred to next year. The proposed final dividend will be submitted to the forthcoming 2010 annual general meeting for consideration and approval (the date of the 2010 annual general meeting is to be announced).

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

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

6.10 Financial resources

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

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

6.11 Capital structure

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

6.12 Capital expenditure

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

6.13 Gearing ratio

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

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

6.16 Contingent liabilities

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

6.17 Charge on the Group's assets

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

6.18 Employees of the Group

As at 31 December 2010, the number of employees on the payroll register of the Group was 5,467, including:

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

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

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

6.19 Development outlook

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

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

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

means of building a stable and competitive network platform for our channels, resulting in an effective and vast coverage of our products.

2. To accelerate the building up of technological innovation system. We will continue to speed up new technological innovation, increase investment in the R & D of new medicines and the further development of famous proprietary Chinese medicines, focus on the progress of significant scientific and technological projects including “Major Breakthrough in New Medicine”, the Scaling-up Technological Platform project, in order to realize product structure optimization and modification as well as industry upgrade, enhance our production technology, R & D and industrialization technology. At the same time, we will actively conduct QC work in accordance with the 2010 Pharmacopoeia Standards to ensure product quality.
3. To strengthen scientific management and speed up integration of operations. We will put greater efforts to resources consolidation, promote scale of economy and synergy effect, develop core competitiveness, and enhance the overall profitability of the Group.
4. To ensure the sustainable and healthy development of the enterprise by reinforcing risk management. We will further strengthen the fundamental management, regulate the business operation, promote the internal control management standard and lower operational risks. The Company has formulated the Implementation Work Plan for Regulation of Internal Control 《實施內部控制規範工作方案》 according to Notice on How to Successfully Perform the Governance on Internal Control for Listed Companies in Jurisdiction in 2011 and Related Pilot Work 《關於做好2011年轄區上市公司內部控制規範實施和試點相關工作的通知》 issued by Guangdong Securities Regulatory Bureau. We spare no effort to propel the setting up and implementation of the internal control system, organize and launch the self-assessment on internal control, commission an intermediary institution to perform audit in respect of the implementation of internal control during 2011.

7 MAJOR EVENTS

7.1 During the Reporting Period, the Group's purchase and disposal of assets or business combination

7.1.1 Acquisition of assets

Applicable Not applicable

| Trade partner or ultimate controller | Acquired asset | Date of acquisition | Price of asset acquisition (RMB'000) | Net profit contributed to the Group to the end of the Reporting Period (RMB'000) | Net profit contributed to the Group from the beginning of the Reporting Period to the end of the Reporting Period (applicable to mergers under the same entity) (RMB'000) | Connected parties (if yes, explain the pricing principle) | The pricing principle of acquired asset | Whether all the assets and property rights involved have been transferred | Whether all the liabilities and debts involved have been transferred | Percentage of net profit to the Group contributed by the assets to the total profit (%) | Relationship with the Company |
|---|---|---------------------|---|---|--|---|---|---|--|--|-------------------------------|
| | | | | | | | | involved | involved | to the total profit | |
| Three individual shareholders of Guangzhou Bai Di | 1.22% equity interest of Guangzhou Bai Di | 15 March 2010 | 1,600 | (31) | - | No | Based on the evaluation of the assets and negotiation | Yes | Yes | (0.01) | - |

7.1.2 Disposal of assets

Applicable Not applicable

| Trade partner or ultimate controller | Disposal of assets | Date of disposal | Price of asset disposed (RMB'000) | Net profit contributed to the Group from the beginning of the Reporting Period to the date of disposal (RMB'000) | Gain/(Loss) arising from the disposal of assets (RMB'000) | Connected parties (if yes, explain the pricing principle) | The pricing principle of disposed assets | Whether all the assets and property rights involved have been transferred | Whether all the liabilities and debts involved have been transferred | Percentage of net profit to the Group contributed by the assets to the total profit (%) | Relationship with the Company |
|--------------------------------------|--|------------------|--------------------------------------|---|--|---|---|---|--|---|-------------------------------|
| | | | | | | | | Yes | Yes | | |
| Guangzhou Soccer Development Center | 42.50% equity interest of Guangzhou Pharmaceutical Soccer Club Co., Ltd. held by the Company's six subsidiaries | 30 January 2010 | 8,500 | - | 3,651 | No | Based on the evaluation of the assets and negotiation | Yes | Yes | 1.37 | - |
| GP Corp. | 100% equity interest of Guangzhou Qi Xing Pharmaceutical Trading Co., Ltd. held by Guangzhou Qi Xing Pharmaceutical Factory, a subsidiary of the Company | 30 June 2010 | 1,700 | 389 | 1,183 | Yes | Based on the evaluation of the assets and negotiation | Yes | Yes | 0.44 | Joint venture |

Note: On 30 January 2010, the Company's six subsidiaries and its joint venture, namely Wang Lao Ji, signed the Agreement in relation to Equity Transfer of Guangzhou Pharmaceutical Soccer Club Co., Ltd., pursuant to which the 50% equity interest held therein were transferred to Guangzhou Soccer Development Center. As at the end of the Report Period, all the amount of consideration relating to the above equity transfer has been received, and the transaction has been completed.

7.2 Major guarantees

Applicable Not applicable

Guarantees provided by the Group to parties other than the Company's subsidiaries

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

7.3 Connected transactions during the Reporting Period

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

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

7.3.2 On 28 October 2010, the Company and GPLL entered into the Agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions under the Agreement were approved at the Board meeting and the 2010 Extraordinary General Meeting.

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

7.3.3 On 28 October 2010, the Company, GP Corp. and Wang Lao Ji entered into the Agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions under the Agreement were approved at the Board meeting and the 2010 Extraordinary General Meeting.

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

7.3.4 Connected transactions related to daily operations

Applicable Not applicable

Pursuant to the regulations of China Securities Regulatory Commission (“CSRC”) and the SSE, details of such transactions were set out as follows:

| 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 (%) |
| GPHL | 94 | 0.00 | – | – |
| Guangzhou Baiyunshan Pharmaceutical Co., Ltd | 48,065 | 1.09 | 66,298 | 2.01 |
| Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd | 44,331 | 1.01 | 767 | 0.02 |
| Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd | 2,618 | 0.06 | 243 | 0.01 |
| Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd | 86,321 | 1.96 | 62,525 | 1.90 |
| Polian Development Co., Ltd | 1,416 | 0.03 | 79,176 | 2.40 |
| Guangzhou Pharmaceutical Industrial Research Institute | 1,463 | 0.03 | – | – |
| Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd | 32,570 | 0.74 | 648 | 0.02 |
| GP Corp. | 177,876 | 4.04 | 68,724 | 2.08 |
| Wang Lao Ji | 48,268 | 1.10 | 2,701 | 0.08 |
| Baiyunshan Wei Ling Pharmaceutical Co., Ltd | – | – | 29 | 0.00 |
| Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd | – | – | 400 | 0.01 |
| Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd | 21 | 0.00 | – | – |
| Total | 443,043 | 10.06 | 281,511 | 8.53 |

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 connected parties amounted to RMB443,043,000.

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

2010
(RMB'000)

Ultimate holding company

| | |
|---------------------------------|-------|
| License fee expenses | 4,218 |
| Welfare facilities fee expenses | 338 |
| Rental expenses | 2,226 |

Ultimate holding company and its subsidiaries

| | |
|--|---------|
| Sales of finished goods and raw materials | 216,899 |
| Purchase of finished goods and raw materials | 210,086 |

7.3.5 Non-operating funds to/from connected parties

Applicable Not applicable

7.4 Entrusted fund management

Applicable Not applicable

7.5 Performance of the undertakings

Applicable Not applicable

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

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 during the Reporting Period (RMB'000) | Changes in equity during the Reporting Period (RMB'000) | Accounting item | Sources of shares |
|------------|---------------------------------------|--|--------------------------|---|---|--|-------------------------------------|-------------------|
| 601818 | China Everbright Bank Company Limited | 10,725 | approximately 0.02 | 23,958 | 247 | 9,925 | Available-for-sale financial assets | Acquisition |
| 601328 | Bank of Communications | 439 | - | 1,657 | 132 | (806) | Available-for-sale financial assets | Acquisition |

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

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

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

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

- (1) convening three meetings in 2010 to review the 2009 Annual Report and 2010 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management. Each of the members of the committee attended all the meetings;
- (2) evaluating the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (3) re-appoint or newly appoint accountant of the Company for the Year;
- (4) issuing recommendations with respect to major events of the Company or reminding the management of relevant risks.

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

After the issuance of the Notice ([2010] No.37) by CSRC, all members of the Audit Committee studied the relevant requirements seriously. The Committee worked in accordance with the Audit Commission's Annual Report Guidelines in launching the auditing work for 2010 and preparatory work for the annual report of the Company, which included the following:

- (1) The Committee negotiated with the domestic and international auditors of the Company and the Company's Finance Department regarding the time for audit and the relevant arrangements and set out the "Framework for the Preparation of 2010 Annual Report" and reviewed the audit plan submitted by the auditors.
- (2) The Audit Committee reviewed the draft of the financial reports prepared by the Company on 10 March 2011 and issued written recommendations thereon.
- (3) After the issuance of auditors' initial opinions by the domestic and international auditors, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believes the 2010 Financial Reports of the Company reflected the state of affairs of the Company truly, accurately and completely, and agreed to submit the Reports to the Board for approval.
- (4) On 18 March 2011, the Audit Committee convened the first meeting for 2011 and considered and passed the 2010 Annual Report of the Company and the Company's 2010 Financial Statements. At the same time, the Audit Committee summed up its evaluation on the audit work of the domestic and international auditors and believes that both auditors have carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide to their professional ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report in time, as well as issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

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 code provisions 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 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 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 2010 were audited by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd., who issued an unqualified audited report (2011 Yang Cha Zi No.21089) signed by the two Chinese certified public accountants, Mr. Huang Weicheng and Ms. Wu Changhua, and by PricewaterhouseCoopers, who has issued unqualified auditors' reports thereon.

9.2 Financial Report (prepared in accordance with HKFRS)

Consolidated income statement-by function of expense

| | <i>Note</i> | Year ended 31 December | |
|---|-------------|----------------------------------|----------------------------------|
| | | 2010 <i>(RMB '000)</i> | 2009 <i>(RMB '000)</i> |
| Revenue | 9.2.2 | 4,403,098 | 3,802,423 |
| Cost of sales | | (3,188,573) | (2,791,437) |
| Gross profit | | 1,214,525 | 1,010,986 |
| Other income | 9.2.7 | 108,761 | 106,138 |
| Other gains-net | 9.2.8 | 21,529 | 4,680 |
| Other operating expenses | | (11,104) | (10,711) |
| Selling and marketing costs | | (647,485) | (585,437) |
| Administrative expenses | | (458,365) | (423,442) |
| Operating profit | | 227,861 | 102,214 |
| Share of losses of associates | | (5,643) | (1,473) |
| Share of profits of jointly controlled entities | | 115,293 | 135,647 |
| Finance income | 9.2.10 | 7,121 | 9,033 |
| Finance costs | 9.2.10 | (4,925) | (10,253) |
| Profit before income tax | | 339,707 | 235,168 |
| Income tax expense | 9.2.11 | (51,847) | (22,491) |
| Profit for the year | | 287,860 | 212,677 |
| Profit attributable to: | | | |
| Shareholders of the Company | | 279,597 | 214,900 |
| Non-controlling interests | | 8,263 | (2,223) |
| | | 287,860 | 212,677 |
| Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share) | | | |
| – basic and diluted | 9.2.3 | 0.345 | 0.265 |
| Dividends | 9.2.4 | 40,545 | 40,545 |

Consolidated statement of comprehensive income

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

Consolidated balance sheet

| | <i>Note</i> | As at 31 December | |
|---|-------------|---------------------------|---------------------------|
| | | 2010 <i>(RMB '000)</i> | 2009 <i>(RMB '000)</i> |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 1,158,546 | 1,226,498 |
| Investment properties | | 241,561 | 190,981 |
| Leasehold land and land use rights | | 90,924 | 93,251 |
| Intangible assets | | 11,437 | 11,855 |
| Investments in associates | | 7,716 | 18,222 |
| Investments in jointly controlled entities | | 945,740 | 876,435 |
| Available-for-sale financial assets | | 31,396 | 34,506 |
| Deferred income tax assets | | 41,627 | 47,077 |
| | | 2,528,947 | 2,498,825 |
| Current assets | | | |
| Inventories | | 755,056 | 560,522 |
| Trade and other receivables | 9.2.5 | 702,271 | 650,678 |
| Financial assets at fair value through profit or loss | | 11,669 | 31,332 |
| Tax recoverable | | 419 | 10,716 |
| Restricted cash | | 11,050 | 29,549 |
| Cash and cash equivalents | | 696,347 | 667,385 |
| | | 2,176,812 | 1,950,182 |
| Total assets | | 4,705,759 | 4,449,007 |
| EQUITY | | | |
| Equity attributable to shareholders of the Company | | | |
| Share capital | | 810,900 | 810,900 |
| Share premium | | 781,134 | 781,134 |
| Other reserves | | 1,046,458 | 1,024,061 |
| Retained earnings | | | |
| – Proposed final dividend | | 40,545 | 40,545 |
| – Others | | 1,014,685 | 793,362 |
| | | 3,693,722 | 3,450,002 |
| Non-controlling interests | | 119,785 | 113,664 |
| Total equity | | 3,813,507 | 3,563,666 |

| | | As at 31 December | |
|--|-------------|--------------------------|-------------------|
| | <i>Note</i> | 2010 | 2009 |
| | | (RMB '000) | (RMB '000) |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 62,590 | 55,833 |
| Government grants | | 25,888 | 19,503 |
| Employee benefits payables | | – | 13,629 |
| | | 88,478 | 88,965 |
| Current liabilities | | | |
| Trade and other payables | 9.2.6 | 748,706 | 722,456 |
| Dividend payables | | 114 | 65 |
| Current income tax liabilities | | 16,086 | 10,485 |
| Borrowings | | 38,868 | 63,370 |
| | | 803,774 | 796,376 |
| Total liabilities | | 892,252 | 885,341 |
| Total equity and liabilities | | 4,705,759 | 4,449,007 |
| Net current assets | | 1,373,038 | 1,153,806 |
| Total assets less current liabilities | | 3,901,985 | 3,652,631 |

9.2.1 Change in accounting policy and disclosures

New and amended standards adopted by the Group

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

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

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

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

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

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

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 three reportable operating segments as follows:

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

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

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

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

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

The segment results for the year ended 31 December 2010 are as follows:

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

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

| | Pharmaceutical | | | |
|--|-----------------------|------------------|----------------------|------------------|
| | Manufacturing | trading | Other trading | Total |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| Revenue | 1,976,891 | 1,942,038 | 340,361 | 4,259,290 |
| Inter-segment revenue | (28,112) | (428,755) | – | (456,867) |
| Revenue (from external customers) | <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) |
| 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 assets and liabilities as at 31 December 2010 and 31 December 2009 are as follows:

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

Reconciliations of material items are provided as follows:

| 2010 | Total for reportable segments (RMB'000) | Corporate (RMB'000) | Elimination (RMB'000) | Total (RMB'000) |
|---|--|--------------------------------|----------------------------------|----------------------------|
| Revenue | 5,055,789 | – | (652,691) | 4,403,098 |
| Depreciation and amortisation | (108,820) | (1,305) | – | (110,125) |
| Provision for trade and other receivables impairment | (3,786) | (95) | – | (3,881) |
| Write back of provision for trade and other receivables impairment | 8,956 | 691 | – | 9,647 |
| Finance income | 4,459 | 2,662 | – | 7,121 |
| Finance cost | (28,440) | (839) | 24,354 | (4,925) |
| Share of post-tax profits/(losses) from associates | 13 | (5,656) | – | (5,643) |
| Share of post-tax profits from jointly controlled entities | – | 115,293 | – | 115,293 |
| Income tax expense | (43,948) | (7,899) | – | (51,847) |
| | Total for reportable segments (RMB'000) | Corporate (RMB'000) | Elimination (RMB'000) | Total (RMB'000) |
| 2009 | | | | |
| Revenue | 4,259,290 | – | (456,867) | 3,802,423 |
| Depreciation and amortisation | (113,441) | (1,544) | – | (114,985) |
| Provision for trade and other receivables impairment | (6,418) | (122) | – | (6,540) |
| Write back of provision for trade and other receivables impairment | 21,648 | 140 | – | 21,788 |
| Finance income | 2,797 | 6,236 | – | 9,033 |
| Finance cost | (26,118) | (1,284) | 17,149 | (10,253) |
| Share of post-tax profits/(losses) from associates | 1,257 | (2,730) | – | (1,473) |
| Share of post-tax profits from jointly controlled entities | – | 135,647 | – | 135,647 |
| Income tax expense | (13,008) | (9,483) | – | (22,491) |

A reconciliation of profit after tax is provided as follows:

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

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

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

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

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

Breakdown of revenue from all services is as follows:

| Analysis of revenue by category | 2010 <i>(RMB '000)</i> | 2009 <i>(RMB '000)</i> |
|--|----------------------------------|---------------------------|
| Sales of pharmaceutical products | 3,894,625 | 3,462,062 |
| Sales of other merchandise | 508,473 | 340,361 |
| Total | <u>4,403,098</u> | <u>3,802,423</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 2010 is RMB4,252,370,000 (2009: RMB3,694,471,000), and the total of its revenue from external customers from other countries is RMB150,728,000 (2009: RMB107,952,000).

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

For the year ended 31 December 2010 and 2009, the revenue from the Group's largest customers was less than 10% of the Group's total revenue.

Turnover consists of sales revenue from manufacturing, pharmaceutical trading and other trading, which are RMB4,403,098,000 and RMB3,802,423,000 for the years ended 31 December 2010 and 2009 respectively.

9.2.3 Earnings per share

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

Basic and diluted earnings per share is the same as there were no potential dilutive shares in issue during the years ended 31 December 2010 and 2009.

9.2.4 Dividends

| | 2010 <i>(RMB '000)</i> | 2009 <i>(RMB '000)</i> |
|--|----------------------------------|---------------------------|
| Proposed final dividend of RMB0.05 (2009: RMB0.05) per ordinary share | <u>40,545</u> | <u>40,545</u> |

At a meeting held on 25 March 2011, the directors declared a final dividend of RMB0.05 per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2011.

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

9.2.5 Trade and other receivables

| | 2010 <i>(RMB '000)</i> | 2009 <i>(RMB '000)</i> |
|--|----------------------------------|---------------------------|
| Trade receivables (<i>Note a</i>) | 361,623 | 388,574 |
| Less: provision for impairment of trade receivables | (30,440) | (36,011) |
| Trade receivables – net | 331,183 | 352,563 |
| Bills receivable | 200,471 | 160,027 |
| Prepayments | 126,960 | 96,831 |
| Other receivables | 43,657 | 41,257 |
| | 702,271 | 650,678 |

- (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:

| | 2010 <i>(RMB '000)</i> | 2009 <i>(RMB '000)</i> |
|--------------------|----------------------------------|---------------------------|
| Within 6 months | 317,416 | 340,644 |
| 6 months to 1 year | 11,948 | 12,247 |
| Over 1 year | 32,259 | 35,683 |
| | 361,623 | 388,574 |

9.2.6 Trade and other payables

| | 2010 (RMB '000) | 2009 (RMB '000) |
|--|--------------------|--------------------|
| Trade payables (Note a) | 340,702 | 337,272 |
| Payroll and welfare payables | 75,656 | 69,447 |
| Government grants | 76,000 | 60,811 |
| Payables for equipment and construction in progress | 15,868 | 19,041 |
| Deposits received | 28,265 | 16,076 |
| Advances from customers | 99,011 | 121,348 |
| Accruals | 34,421 | 13,593 |
| Other taxes payables | 27,740 | 25,244 |
| Others | 51,043 | 59,624 |
| | <u>748,706</u> | <u>722,456</u> |

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

| | 2010 (RMB '000) | 2009 (RMB '000) |
|--------------------|--------------------|--------------------|
| Within 3 months | 305,322 | 310,896 |
| 3 months to 1 year | 24,876 | 17,469 |
| 1 year to 2 years | 5,512 | 4,783 |
| Over 2 years | 4,992 | 4,124 |
| | <u>340,702</u> | <u>337,272</u> |

9.2.7 Other income

| | 2010 (RMB '000) | 2009 (RMB '000) |
|--------------------|--------------------|--------------------|
| Rental income | 54,130 | 50,239 |
| Government grants | 25,792 | 26,622 |
| License fee income | 13,860 | 13,266 |
| Others | 14,979 | 16,011 |
| | <u>108,761</u> | <u>106,138</u> |

9.2.8 Other gains-net

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

9.2.9 Operating Profit

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

| | 2010 (RMB'000) | 2009 <i>(RMB'000)</i> |
|-------------------------------|---------------------------------|--------------------------|
| Depreciation and amortisation | 110,125 | 114,985 |

9.2.10 Finance income and costs

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

| | 2010 (RMB '000) | 2009 (RMB '000) |
|---------------------|--------------------|--------------------|
| Current income tax | 41,495 | 21,114 |
| Deferred income tax | 10,352 | 1,377 |
| | <u>51,847</u> | <u>22,491</u> |

9.3 Explanation on possible changes in accounting policies, estimation and audit method when compared with the 2009 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

The Board of
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 25 March 2011

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Li Chuyuan, Mr. Shi Shaobin and Mr. Wu Changhai as executive directors, and Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong as independent non-executive directors.