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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 2011 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 2011 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 2011 annual report carefully.
- 1.3 The directors of the Board of the Company attended the 12th meeting of the fifth session of the Board held on 16 February 2012, among whom, Mr. Li Shanmin, an independent non-executive director, attended the meeting by means of telephone communication; Mr. Shi Shaobin, an executive director, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, independent non-executive directors, were unable to attend the meeting and respectively appointed Mr. Wu Changhai, an executive director, Mr. Liu Jinxiang and Mr. Zhang Yonghua, independent non-executive directors, to attend the meeting and vote on their behalf.
- 1.4 The financial reports of the Company and its subsidiaries (collectively the “Group”), and the Company for the year ended 31 December 2011 (the “Reporting Period” or the “Year”) are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company 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 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.
- 1.7 All the information required to be contained in the summary of 2011 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

2.2 Contacts

	Secretary to the Board	Representative of securities affairs
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3 FINANCIAL DATA AND INDICATORS

3.1 Principal financial data

	2011 <i>(RMB'000)</i>	2010 <i>(RMB'000)</i>	Year on year increase/ (decrease) (%)	2009 <i>(RMB'000)</i>
Income from operations	5,439,612	4,486,067	21.26	3,881,938
Operating profit	308,926	298,016	3.66	207,077
Total profit	334,993	321,341	4.25	231,331
Net profit attributable to the shareholders of the Company	287,531	267,112	7.64	210,989
Net profit attributable to the shareholders of the Company after deducting non-recurring items	265,742	233,168	13.97	156,584
Net cash flow from operating activities	(180,053)	73,218	(345.91)	439,393
	As at 31 December 2011 <i>(RMB'000)</i>	As at 31 December 2010 <i>(RMB'000)</i>	Year on year increase/ (decrease) (%)	As at 31 December 2009 <i>(RMB'000)</i>
Total assets	4,851,266	4,477,892	8.34	4,226,137
Total liabilities	956,094	836,351	14.32	824,561
Shareholders' equity attributable to the shareholders of the Company	3,781,652	3,539,369	6.85	3,304,186
Total share capital (<i>share</i>)	810,900,000	810,900,000	–	810,900,000

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

3.2 Principal financial indicators

	2011	2010	Year on year increase/ (decrease) (%)	2009
Basic earnings per share (<i>RMB</i>)	0.355	0.329	7.64	0.260
Diluted earnings per share (<i>RMB</i>)	0.355	0.329	7.64	0.260
Latest equity earnings per share (<i>RMB</i>)	N/A	N/A	N/A	N/A
Basic earnings per share after deducting non-recurring items (<i>RMB</i>)	0.328	0.288	13.97	0.193
Fully diluted return on net assets ratio (%)	7.84	7.81	An increase of 0.03 percentage point	6.56
Ratio of fully diluted return on net assets after deducting non-operating items (%)	7.25	6.82	An increase of 0.43 percentage point	4.87
Net cash flow from operating activities per share (<i>RMB</i>)	(0.22)	0.09	(345.91)	0.54

	As at 31 December 2011	As at 31 December 2010	Year on year increase/ (decrease) (%)	As at 31 December 2009
Net assets per share attributable to the shareholders of the Company (<i>RMB</i>)	4.66	4.36	6.85	4.07
Gearing ratio (%)	19.71	18.68	An increase of 1.03 percentage points	19.51

Non-recurring items Applicable Not applicable

Items	2011 (RMB'000)	Remarks	2010 (RMB'000)	2009 (RMB'000)
Loss on disposal of non-current assets	(1,034)		3,740	(177)
Government subsidies recognized as gain	25,358	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.	25,792	26,622
Capital use fees received from non-financial enterprises recognized as gain	-		-	1,871
Loss on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	(3,158)		2,435	2,324
Write back of provision for impairment of accounts receivable undergoing independent impairment test	1,233	During the Reporting Period, the Company's subsidiaries strengthened collection of accounts receivable and bad debt provision from accounts receivable was written back during the Reporting Period.	8,191	28,374
Loss from entrusted loans	(654)		(512)	4,222
Other non-operating income and expenses excluding the above items	1,743		(1,374)	(2,192)
Income tax effect	(805)		(2,139)	(2,457)
Effect on minority interest	(894)		(2,189)	(4,183)
Total	21,789		33,944	54,404

Items measured at fair value

Applicable Not applicable

Items	Balance at the beginning of the Reporting Period (RMB'000)	Balance at the end of the Reporting Period (RMB'000)	Changes during the Reporting Period (RMB'000)	Impact on the profit for the Reporting Period (RMB'000)
Financial assets available for sale	25,615	18,908	(6,707)	578
Financial assets for trading	11,669	3,128	(8,541)	(3,024)
Total	37,284	22,036	(15,248)	(2,446)

4. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

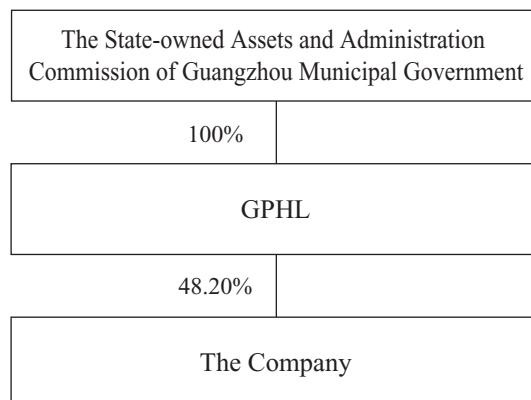
4.1 The Company's top ten shareholders

Total number of shareholders as at the end of the Reporting Period		Total number of shareholders as at the end of the month before publication of the annual report				
54,015		54,015				
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 (share)	Number of shares pledged or locked shares (share)
Guangzhou Pharmaceutical Holdings Limited ("GPHL")	Domestic shares	0	390,833,391	48.20	Nil	Nil
HKSCC Nominees Limited	Foreign capital shares	(87,910)	219,111,389	27.02	Nil	Unknown
PICC Property and Casualty Co., Ltd. - Traditional - General Insurance Products - 008C - Shanghai CT001	Domestic shares	8,606,147	8,606,147	1.06	Nil	Unknown
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	(8,492,000)	5,460,000	0.67	Nil	Unknown
China Life Insurance Company Limited-Dividend-Individual Bonus-005L-Shanghai H002	Domestic shares	5,190,362	5,190,362	0.64	Nil	Unknown
China Construction Bank-Intermediation Leading Growth Stock Securities Investment Fund	Domestic shares	4,379,898	4,379,898	0.54	Nil	Unknown
China Life Insurance Company Limited-Dividend-Individual Bonus-Insurance Bonus	Domestic shares	3,536,844	3,536,844	0.44	Nil	Unknown
PICC Property and Casualty Co., Ltd. - Own Funds	Domestic shares	1,827,096	2,633,406	0.32	Nil	Unknown
Hua Bao Investment Co., Ltd.	Domestic shares	2,400,000	2,400,000	0.30	Nil	Unknown
Tao Haian	Domestic shares	690,637	1,916,987	0.24	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".

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



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

4.4 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.

4.5 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. REPORT OF THE DIRECTORS

5.1 Management discussion and analysis

5.1.1 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.

5.1.2 Analysis of operating results

Operation review

In 2011, with the focus on marketing, the Group has deepened and widened the marketing network mainly through marketing innovation in order to expanded the market. The Group has also devoted greater effort in the bidding and adapted to the changes of medical reform policies, increased the sale channels for the consumers and strengthened education and training on the patients, tightened the control on the production and operation, as well as cost management, actively explored internal resources and improved the transfer of internal financial resources in order to overcome the challenges arising from the increasing operating cost (in particular the impact from the increase in raw materials cost and the tightening of the budget), so as to ensure a stable and continuous growth of its principal operations.

During the Reporting Period, the Group recorded an income from principal operations of approximately RMB5,345,158,000, with a growth of 21.40% as compared with last year. The profit before tax amounted to approximately RMB334,993,000, representing an increase of 4.25% over the corresponding period of last year and net profit attributable to shareholders of the Company amounted to RMB287,531,000, representing an increase of 7.64% over last year.

A breakdown of the operational results of the overall and principal operations of the Group for 2011 is set out as follows:

Item	2011 <i>(RMB'000)</i>	2010 <i>(RMB'000)</i>	Increase/ (Decrease) <i>(YOY)</i> <i>(%)</i>
Income from principal operations	5,345,158	4,403,098	21.40
Operating profit	308,926	298,016	3.66
Total profit	334,993	321,341	4.25
Net profit attributable to shareholders of the Company	287,531	267,112	7.64

(1) *The manufacturing operations*

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the Group has sustained marketing innovation by fully developing academic marketing through a series of academic marketing events such as “translational medicine”(轉化醫學) research and promotion, “Chinese Medicine in China” (中醫中藥中國行), “Chain Cooperation among the Top 100 Enterprises” (百強連鎖合作) “Education Cycle” (教育大循環). The Group has realized the growth in sales by enlarging the scope and number of academic training and patient education, and strengthening the marketing and promotion of our brands and products. Secondly, the Group has continued to reinforce its works on government affairs and strengthened the contact and communication with relevant authorities so as to be well-prepared for the bidding and adapted to the changes of medical reform policies. Thirdly, the Group has improved the management on distributors and integration and control on the marketing channels, strengthened the pricing mechanism, and raised the enthusiasm of the distributors and the retailers in order to foster a steady growth in sales volume of the products. Fourthly, the Group has pushed forward the planning and positioning of its products by concentrating its advantageous resources, reshaping the brand image and expanding the market channels. Efforts were made in promoting the billion-yuan product developments, including Zhong Yi Xiao Ke Wan, Zhong Yi An Gong Niu Huang Wan, Qi Xing Hua Tuo Zai Zao Wan, Han Fang Ling Zhi Bao Zi You and herbal slices of Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (“Cai Zhi Lin”). Among which, sales revenues from products such as Qi Xing Hua Tuo Zai Zao Wan and Han Fang Ling Zhi Bao Zi You recorded a year-on-year growth of 43.03% and 119.75% respectively. Fifthly, the Group has enhanced the management of production cost and strived to reduce the production cost. The Group has buffered the pressure from the soaring price of raw materials through merchandise bidding and quality and price comparison, and enhancing cooperation in herbal planting of strategic category. The Group also reduced production cost by measures such as appropriate scheduling, improvement in the production process and energy-saving.

During the Reporting Period, the gross profit margin of the manufacturing operations was 44.66%, representing a decrease of 3.19 percentage points as compared with last year. The decrease in the gross profit margin of the manufacturing operations was mainly due to the continuous increase in the price of raw material packages and labor costs, which resulted in the increase in production cost.

In 2011, products such as Hua Tuo Zai Zao Wan, Xia Sang Ju Ke Li, Zhuang Yao Jian Shen Wan, Zhi Ke Chuan Bei Pi Pa Lu, Zi Shen Yu Tai Wan, Wei Nai An Jiao Nang, Shu Jin Jian Yao Wan, Xu Han Ting Ke Li and Ling Zhi Bao Zi You recorded great increase in sales revenue as compared with last year.

During the Reporting Period, the Group obtained 4 production approvals. An aggregate of 18 applications for invention patents were made during the Reporting Period, and the Group was authorized 16 invention patents during the Reporting Period. In addition, after obtaining the international patents for Kun Xian Jiao Nang (PCT) by Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd. (“Chen Li Ji”) in Russia, Australia, Canada, Japan, Korea, China and Hong Kong, the United States also granted its approval for the application for the patent, resulting in patent authorization in eight countries and regions in total. Meanwhile, the Group has also won various technology prizes, among which, Guangzhou Zhong Yi Pharmaceutical Co., Ltd. (“Zhong Yi”) and Guangzhou Qi Xing Pharmaceutical Co., Ltd. (“Qi Xing”) received the honor of “Demonstration Base for the Protection and Production of Traditional Famous Chinese Medicine” (傳統名優中藥品種保護與生產示範基地) from the General Administration of Chinese Traditional Medicine (國家中醫藥管理局). She Dan Chuan Bei Pi Pa Gao of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. (“Pan Gao Shou”) was granted the Golden Award of the first batch of heritage in the State’s Intangible Cultural Heritage Expo, while Dan Bie Jiao Nang was granted the Second Prize from China Association of Chinese Medicine; Zhong Yi was recognized as “Innovative Enterprise in Guangdong Province” by the Guangdong Science and Technology Department. 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 Technological Advancement. The study and industrialization of key technologies of quality control in the course of production of Chinese medicine pills (Xiao Ke Wan), which was developed by Zhong Yi, was also awarded the Guangzhou First Prize in Technological Advancement (published). Mi Lian Chuan Bei Pi Pa Gao, She Dan Chuan Bei Pi Pa Gao and Dan Bie Jiao Nang of Pan Gao Shou received the honor of “Technological Innovation Products in Guangzhou City”. The 2007 State Biological Medicine High Technology Industry Development Project “Chinese Compound New Medicine Kun Xian Jiao Nang Industrialization Project”, which is borne by Chen Li Ji, passed the final stage of test and acceptance in the first quarter of 2011.

Following the five subordinated enterprises of the Company, namely Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”), Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Pan Gao Shou, Guangzhou Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”) and Cai Zhi Lin having been the first group entering in the recognition list of “Traditional Pharmaceutical Brands in China”, three other enterprises, namely Zhong Yi, Chen Li Ji and Qi Xing, were the second group included in the recognition list of “Traditional Pharmaceutical Brands in China” during the Year. In addition, the “Production Technology of Bao Zi Tang Bao Ying Dan” (保滋堂保嬰丹製作技藝), with Zhong Yi as the main party for inheriting the technology, was the third group listed in the State’s Intangible Cultural Heritage record in May 2011.

The Iia clinical research of the therapeutic dual-plasmid HBV DNA vaccine was completed during the Reporting Period, and the Company commenced the Iib clinical research in March 2011. As at the end of September 2011, a group of 231 participants have been arranged for grouping according to the project requirement. Currently, we continue to do related work on the grouping of participants and re-interview them.

Zhong Yi obtained the first GMP certificate of pre-processing oral treatment in Guangdong Province in July 2011.

The six subsidiaries of the Company, namely Zhong Yi, Xing Qun, Chen Li Ji, Qi Xing, Jing Xiu Tang and Pan Gao Shou, and the Company's joint venture Wang Lao Ji were recognized as New/High Technology Enterprises in 2008. According to the relevant national policies, validity period for New/High Technology Enterprises is three years, subject to review before expiry. Currently, the seven enterprises as mentioned above have all passed the review of New/High Technology Enterprises, of which the joint venture Wang Lao Ji, applied for the Key New/High Technology Enterprises and was selected to be one of the Key New/High Technology Enterprises of the State's Torch Plan of 2011 on 8 October 2011.

(2) *The trading operations*

During the Reporting Period, the pharmaceutical trading operations of the Group firstly adjusted its sales strategies, consolidated its customer resources from upstream and downstream and broadened the distribution channels in response to the medical reform policies and market demand. Secondly, the Group has brought the advantages by consolidating resources into full play through continuous improvement of the cooperation with the production enterprises on such issues as basic list of medicine and bidding. Thirdly, the Group has actively explored and facilitated the development of differentiation according to their respective expertise. Cai Zhi Lin, a subsidiary of the Company, exerted its unique advantage of Chinese medicine operation and enhanced the cooperation with the production enterprises to broaden the sales of Chinese medicine, and increase its effort in merger and acquisition to consolidate the Chinese medicine resources for centralizing bulk medicine purchase and the development of a Chinese medicine GAP base. Of which, the Gejie farm (蛤蚧養殖基地) established with Guangxi Guigang City Zhen Zhen Gejie Technology Company (廣西貴港市真真蛤蚧科技公司) and the Zhaoqing Gouji base (肇慶狗脊基地) have already opened up for business during the Reporting Period, while the GAP bases for nine kinds of medicine established in five regions, namely Chongqing, Shandong, Guizhou, Inner Mongolia and Tibet, would soon be registered and opened up for business. In the meantime, through the upgrading of production

lines and improvement of technologies for its herbal slices plant, Cai Zhi Lin further expanded its production capacity of herbal slices and developed such business as small packages of herbal slices for hospital, driving a year-on-year growth of 63.7% and 49% in the sales of its own end-products and herbal slices respectively. Guangzhou Import & Export Co., Ltd. (“Import & Export Co., Ltd.”) also further speeded up the development and expansion of sales business of various business platforms to achieve a rapid growth in the operations. Fourthly, the Group has vigorously identified new customers and expanded the range of products for which the Company acts as agent, so as to expand the product range.

During the Reporting Period, the gross profit margin of the trading operations was 6.65%, representing a decrease of 0.91 percentage point as compared with last year.

As at 31 December 2011, the Group had 52 retail chain pharmacy outlets, including 51 “Cai Zhi Lin” which specialized in traditional Chinese medicines, one pharmacy named Ying Bang.

5.1.3 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

5.2 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)	Cost of principal operations (RMB'000)	Gross profit margin of operations (%)	Change in income from operations as compared with 2010 (%)	Change in costs from operations as compared with 2010 (%)	Change in gross profit of operations as compared with 2010 (percentage point)
<i>Principal operations:</i>						
Manufacturing	2,534,760	1,402,836	44.66	15.82	22.90	With a decrease of 3.19 percentage points
Trading	2,810,398	2,623,470	6.65	26.91	28.15	With a decrease of 0.91 percentage point
Include:						
Pharmaceutical trading	2,049,750	1,871,803	8.68	20.15	21.26	With a decrease of 0.84 percentage point
Other trading	760,648	751,667	1.18	49.59	49.27	With an increase of 0.21 percentage point

Principal activities or major products	Income from principal operations (RMB'000)	Cost of principal operations (RMB'000)	Gross profit margin of operations (%)	Change in income from operations as compared with 2010 (%)	Change in costs from operations as compared with 2010 (%)	Change in gross profit of operations as compared with 2010 (percentage point)
<i>Products:</i>						
Heat clearing and anti-toxic medicine	327,288	188,896	42.28	15.59	18.35	With a decrease of 1.35 percentage points
Diabetic medicine	518,255	221,396	57.28	4.79	16.93	With a decrease of 4.43 percentage points
Cough and phlegm clearing medicine	336,872	172,752	48.72	17.93	21.98	With a decrease of 1.70 percentage points
Arthritic medicine	349,282	186,467	46.61	34.39	51.23	With a decrease of 5.94 percentage points
Gastric medicine	99,030	49,626	49.89	42.69	44.39	With a decrease of 0.59 percentage point
Other products	904,033	583,698	35.43	13.58	18.35	With a decrease of 2.60 percentage points

Gross profit margin = (Income from principal operations-Cost of principal operations)/
Income from principal operations

5.3 Details of operation and results of the Company's subordinated enterprises for the Year

Name of enterprises	Equity directly held by the Company (%)	Income from principal operation (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	259,399	13,608	11,503
Zhong Yi	100.00	748,439	44,248	35,554
Chen Li Ji	100.00	274,673	34,456	28,302
Qi Xing	75.00	400,064	25,806	23,035
Jing Xiu Tang	88.40	250,403	24,210	19,611
Pan Gao Shou	87.77	332,926	22,391	17,934
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	44,688	1,248	1,248
Guangzhou Bai Di Biological Pharmaceutical Co., Ltd	98.48	1,590	6,367	6,367
Guangzhou Han Fang	97.04	102,587	801	801
Cai Zhi Lin Import & Export Co., Ltd.	100.00	1,784,915	10,519	8,669
	100.00	1,723,592	7,335	5,289
(2) Branch Company				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	–	12,924	1,151	1,151
(3) Joint ventures				
Wang Lao Ji (<i>Note a</i>)	48.05	1,930,353	170,858	142,338
Guangzhou Pharmaceuticals Corporation (“GP Corp.”) (<i>note b</i>)	50.00	15,798,247	202,320	134,622
Guangzhou Nuo Cheng Bio-tech Co., Ltd (“Nuo Cheng”) (<i>note c</i>)	50.00	169,574	40,356	34,702

Notes:

- (a) 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 2011, Wang Lao Ji recorded an income from principal operations of RMB1,930,353,000, representing an increase of 24.41% as compared with last year. Its total profit amounted to RMB170,858,000, representing an increase of 36.18% as compared with last year and its net profit was RMB142,338,000, representing an increase of 35.36% as compared with last year. During the Reporting Period, sales of Wang Lao Ji Run Hou Tang (56g), Wang Lao Ji Herb Tea and Xiao Er Qi Xing Cha Ke Li of Wang Lao Ji represented an increase of 39.32%, 28.70% and 23.63% as compared with last year respectively.

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

GP Corp. is principally engaged in the wholesale and retail of western pharmaceutical products and medical apparatus. In 2011, GP Corp. has made great effort in the expansion of its principal operations to ensure a stable growth, and increased its investment in and enhanced the effort for mergers and acquisitions within and outside the province for boosting a growth on expansion. During the Year, GP Corp. actively developed e-commerce for pharmaceutical products and established a platform for consumer health care services. The Guang Yao Jian Min Network became the second online pharmacy approved by the State Food and Drug Administration in Southern China.

In 2011, income from principal operations of GP Corp. amounted to RMB15,798,247,000, representing an increase of 19.13% as compared with last year, its total profit was RMB202,320,000, representing an increase of 15.49% as compared with last year and its net profit was RMB134,622,000, representing an increase of 11.54% as compared with last year.

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

Currently, Nuo Cheng is mainly engaged in the production of Rabies Bacterin. In 2011, Nuo Cheng focused on expanding the production capacity of Rabies Bacterin to meet the market demand. Rabies Bacterin has become a more-than-one billion yuan business.

In 2011, income from principal operations of Nuo Cheng amounted to RMB169,574,000, representing an increase of 223.16% as compared with last year.

Except the above mentioned 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.

During the Reporting Period, the Company did not engage in any other operations which had significant impact on the net profit of the Group.

5.4 Proposed scheme of profit distribution and increase in share capital by transfer from capital reserve

As audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, the consolidated net profit attributable to the shareholders of the Company for 2011 was RMB287,530,980.07. Based on the Company's net profit of RMB248,535,148.52 for 2011, after the transfer of 10% amounting to RMB24,853,514.85 to the statutory surplus reserve fund, plus the retained earnings of RMB989,858,636.46 transferred from last year and after deducting the dividend of RMB40,545,000.00 distributed for 2010, the amount of retained profits available for the distribution to shareholders of the Company for 2011 amounted to RMB1,172,995,270.13

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

Profit distributable to shareholders are calculated in accordance with the China Accounting Standards for Business Enterprises. The Board recommended a final dividend of RMB0.10 per share (including tax) for the year ended 31 December 2011 (2010: RMB0.05 per share), amounted to RMB81,090,000.00. Balance of the undistributed profit of RMB1,091,905,270.13 will carry forward to next year. The proposed final dividend will be submitted to the forthcoming 2011 annual general meeting for consideration and approval.

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

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

Applicable Not applicable

5.5 Liquidity

As at 31 December 2011, the current ratio of the Group was 2.65 (31 December 2010: 3.04), and its quick ratio was 1.67 (31 December 2010: 1.99). Accounts receivable turnover rate was 16.08 times, representing an increase of 6.72% as compared with 2010. Inventory turnover rate was 4.99 times, representing an increase of 2.92% as compared with 2010.

5.6 Financial resources

As at 31 December 2011, cash and cash equivalents of the Group amounted to RMB355,749,000 out of which approximately 98.70% and 1.30% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2011, the Group had bank borrowings of RMB144,929,000 in total, all of which were short-term borrowings (31 December 2010: RMB38,868,000).

5.7 Capital structure

As at 31 December 2011, the Group's current liabilities amounted to RMB871,341,000 (31 December 2010: RMB715,426,000), representing an increase of 21.79% over that of 2010, and its long-term liabilities was RMB84,753,000 (31 December 2010: RMB120,926,000), with a decrease of 29.91% as compared with 2010. The shareholders' equity attributable to the shareholders of the Company amounted to RMB3,781,652,000 (31 December 2010: RMB3,539,369,000), with an increase of 6.85% as compared with 2010.

5.8 Capital expenditure

The Group expects the capital expenditure for 2012 to be approximately RMB184 million (2011: RMB60 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.

5.9 Gearing ratio

As at 31 December 2011, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 19.71% with an increase of 1.03 percentage points as compared with 2010 (as at 31 December 2010: 18.68%).

5.10 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.

5.11 Main cash resources and applications

As at 31 December 2011, cash and cash equivalents of the Group amounted to RMB355,749,000, with a decrease of RMB340,599,000 as compared with the beginning of 2011. The net negative cash inflow derived from operating activities amounted to RMB180,053,000, with a decrease of RMB253,271,000 as compared with 2010, mainly due to the increase in the Group's inventories and accounts receivable for the Reporting Period.

5.12 Contingent liabilities

As at 31 December 2011, the Group has no significant contingent liabilities.

5.13 Charge on the Group's assets

As at 31 December 2011, the Group had no charge on its fixed assets.

5.14 Employees of the Group

As at 31 December 2011, the number of employees on the payroll register of the Group was 5,470, including:

Production and supporting staff	2,284
Sales personnel	1,212
Technical, research and engineering staff	1,171
Finance and statistics staff	186
Other administrative staff	617

133 of the employees were holders of a master degree and 1,473 were holders of a bachelor degree. The number of retirees was 5,278. The total salary payment of the Group for the Year was approximately RMB384 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.

5.15 Future Prospects and Plans

2012 is the second year for the "Twelfth Five-Year Plan". Under the environment that the central government pushes 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, the Group foresees 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, continuous centralization on circulation of pharmaceutical products, the strengthening of the price control on pharmaceutical products by the government, the implementation of the new GMP standard and the continuous price increase of raw materials and corporate costs will pose challenges to the Group's steady growth in the future.

In 2012, the Group will continue to pursue its operation targets, and commence the following work coping with the Company's actual status:

1. To develop innovatively and focus continuously on the differentiated marketing strategies in brand building, products and academic field to strengthen competitiveness. Firstly, the Group shall continue to work on government affairs, pay special attention to the bidding of basic medicine, actively participate in the expansion of basic list of medicine. The Group shall also prepare for the bidding of basic medicine and non-basic medicine with various resources. Secondly, the Group shall vigorously organize marketing campaigns for brand building, cultural and academic fields, increase its effort in academic marketing for such key products as Xiao Ke Wan and Hua Tuo Zai Zao Wan. The Group shall prepare for the promotion, marketing and mass selling of key products and efforts will be allocated to increase the market shares of the products outside the province. Thirdly, the Group shall push forward the key construction work and optimize the advantageous products, potential products and brand products. Based on the continuous effort to make progress on the billion-yuan product developments, including Zhong Yi Xiao Ke Wan, Qi Xing Hua Tuo Zai Zao Wan, Han Fang Ling Zhi Bao Zi You, Zhong Yi An Gong Niu Huang Wan and Cai Zhi Lin's herbal slices in 2011, product developments of She Dan Chuan Bei Pi Pa Gao and She Dan Chuan Bei Pi Pa Ye of Pan Gao Shou, Zhuang Yao Jian Shen Wan and Bu Pi Yi Chang Wan of Chen Li Ji will also commence, so as to drive the growth in sales of the key products. Fourthly, the Group will actively establish such large-scale platforms such as the platform for the purchase of Chinese medicine mainly for Cai Zhi Lin and relevant GAP base company, and the platform for the bulk purchase of raw materials mainly for Import & Export Co., Ltd. At the same time, the Group will actively build an e-commerce platform, so as to rapidly increase our market shares of e-commerce retailer of medicine and realize a rapid growth of the emerging sales channel. Fifthly, we will make full use of the competitive edges of the existing brand names and the network of pharmaceutical chain stores to accelerate the pace of expansion and develop the diversification of the business model for the establishment of a strong pharmaceutical retail network in Southern China.
2. To accelerate the building up of technological innovation system, rapidly execute and turn the innovative ideas into new technologies and enhance innovation capability. The Group shall firstly accelerate the establishment of the Scaling-up Integrated and Innovative Platform of TCM Extraction and Separation, and speed up the progress of research and development of anti-cancer medicine by Han Fang. Secondly, the Group shall enhance the further development of the famous proprietary medicines such as Qi Xing Hua Tuo Zai Zao Wan and Zhong Yi Xiao Ke Wan, and further consolidate the advantage of our famous proprietary medicines. Thirdly, the Group shall continue to conduct the clinical translational medicine research and evidence-based medical research in order to provide supporting evidence for the effectiveness and safety of Chinese medicine. Fourthly, the Group shall enhance communications with Chinese medical hospitals and Chinese Medicine Council within and outside the province, and actively participate in the formulation of Chinese medicine standards. Fifthly, the Group

shall vigorously facilitate the biological medicine projects currently under research, such as the therapeutic dual-plasmid HBV DNA vaccine, to enhance the potential for future market development. Sixthly, the Group shall speed up the progress of application of new GMP certification, and strengthen the control of production processes and improve product quality at the same time.

3. To accelerate the development of Chinese medicine bases, strengthen the cooperation with various raw material planting bases for Chinese medicine across the country, implement the GAP strategic plan in China, control key products and bulk medicine from the source, and reduce production costs.
4. To strengthen the management of cost, production, product quality, expenses and information, put greater efforts to resources consolidation, to achieve centralized operation and reduce the operating cost.
5. To enhance the major asset reorganization involving the Company, speed up the enhancement of cooperation, investment, and merger and acquisition of the subsidiaries and joint ventures of the Company.
6. To reinforce risk control and management, and further improve the internal control system, strengthen the fundamental management, regulate the business operation, promote the internal control management standard and lower operational risks based on the changes in the external operating environment and the Group's practical operation to ensure the sustainable and healthy development of the Company.

6 MAJOR EVENTS

6.1 Connected transactions during the Reporting Period

Connected transactions related to daily operations

Applicable Not applicable

Connected parties	Relationship with the Company	Type of connected transactions	Content of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Purchase of products	Medicine or pharmaceutical products	Market price	107,555	2.36	cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	403	0.01	cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	241	0.01	cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	108,195	2.38	cash
Polian Development Co., Ltd.	Fellow Parent company	Purchase of products	Medicine or pharmaceutical products	Market price	79,046	1.74	cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	1,551	0.03	cash
GP Corp.	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	65,159	1.43	cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	3,916	0.09	cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	213	0.00	cash
Sub-total					366,279	8.05	

Connected parties	Relationship with the Company	Type of connected transactions	Content of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
GPHL	Parent Company	Sales of products	Medicine or pharmaceutical products	Market price	229	0.00	cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	36,960	0.69	cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	44,540	0.83	cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	2,883	0.05	cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	103,169	1.93	cash
Polian Development Co., Ltd.	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	1,797	0.03	cash
Guangzhou Pharmaceutical Research General Institute	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	13	0.00	cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	31,635	0.59	cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	265,850	4.99	cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	50,070	0.94	cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	3,820	0.07	cash
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	12	0.00	cash

Connected parties	Relationship with the Company	Type of connected transactions	Content of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
Nanyang Baiyunshan Hutchinson Whampoa Guanbao Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	3,050	0.06	cash
Sub-total					544,028	10.18	
GPHL	Parent Company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	7,412	100.00	cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	17,266	100.00	cash
GPHL	Parent Company	Others	Rental assets	Agreement price	2,340	10.84	cash
GPHL	Parent Company	Others	Accommodation fees of employees	Agreement price	353	100.00	cash
Guangzhou Pharmaceutical Research General Institute	Fellow Parent company	Transfer of research and development projects	Research and development fees	Agreement price	460	0.52	cash
Total					938,138		

The above connected transactions were transactions carried out within the Group's ordinary operations, determined with reference to market prices, and were considered to have no negative impact on the Group's continuous operations.

6.2 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 ([2011]No.41) issued by China Securities Regulatory Commission (“CSRC”) and “Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies” issued by SSE on 30 December 2011 to oversee the auditing work for 2011 and the preparation of the annual report.

1. Major tasks accomplished by the Audit Committee in 2011 included:
 - (1) convening three meetings in 2011 to review the 2010 Annual Report and 2011 Interim Report and financial statements 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) proposing to the Board for re-appointing auditors of the Company for the Year;
 - (4) making recommendations with respect to major events of the Company or reminding the management of relevant risks.
2. Annual audit for 2011 and relevant jobs regarding the preparation of the Annual Report

After the publication of the Notice ([2011]No.41) issued by CSRC and “Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies” issued by SSE on 30 December 2011, all members of the Audit Committee studied the relevant requirements seriously. The Audit Committee worked in accordance with the Audit Commission’s Annual Report Guidelines in launching the auditing work for 2011 and preparatory work for the annual report of the Company, which included the following:

- (1) The Audit Committee negotiated with the 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 2011 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 6 February 2012 and issued written recommendations thereon.
- (3) After the auditor of the Company preliminarily completed the audit, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believes the 2011 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 16 February 2012, the Audit Committee convened the first meeting for 2012 and considered and passed the 2011 Annual Report of the Company and the Company's 2011 financial statements. At the same time, the Audit Committee summed up its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide to their professional ethics, followed the auditing regulations closely, 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.

6.3 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.

6.4 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.

6.5 The major assets reorganization

The Company has applied for a suspension of trading in the A shares on the SSE and the H shares on the HKEx with effect from 7 November 2011, as GPHL, the controlling shareholder of the Company, is planning for a proposed major assets reorganization (the “Event”) involving the Company. During the period of suspension in the dealing of its shares, the Company continued to fulfill its disclosure obligations in respect of the progress of the Event on a timely basis, and make further announcements regarding the progress of the Event every five trading days.

As at the date of this report, GPHL has obtained the pre-approval to the Event from the State-owned Assets Supervision and Administration Commission of Guangdong Province. Currently, the Company and the relevant parties involving in the Event are stepping up the Event. The Board will convene a meeting for considering the relevant resolutions of the Event and fulfill the disclosure obligations after completing the related work.

7. FINANCIAL REPORTS

7.1 Audit Opinion

Financial Reports

Audited

7.2 Financial statements prepared in accordance with China Accounting Standards for Business Enterprises

(All amounts in Renminbi yuan unless otherwise stated)

Consolidated Balance Sheet

ASSETS	<i>Note</i>	31 December 2011	31 December 2010
Current assets			
Cash at bank and on hand		384,135,738.08	707,396,997.50
Financial assets held for trading		3,127,692.50	11,669,292.02
Notes receivable		430,388,075.25	200,470,880.49
Accounts receivable	7.2.4	446,596,366.96	331,182,885.42
Advances to suppliers		132,518,184.98	126,959,980.73
Interest receivable		–	–
Dividends receivable		–	–
Other receivables		54,056,817.63	43,140,903.17
Inventories		859,005,842.50	755,055,590.28
Current portion of non-current assets		–	–
Other current assets		2,342,210.36	1,299,250.20
Total current assets		2,312,170,928.26	2,177,175,779.81
Non-current assets			
Available-for-sale financial assets		18,907,856.64	25,615,245.16
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments		1,255,088,628.89	952,492,546.46
Investment properties		102,290,186.93	108,517,274.59
Fixed assets		1,000,021,241.01	1,040,084,682.18
Construction in progress		20,369,955.46	27,452,013.77
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		95,138,045.81	96,963,070.09
Development costs		792,251.69	996,251.69
Goodwill		–	–
Long-term prepaid expenses		7,944,670.09	6,967,625.69
Deferred tax assets		38,542,083.57	41,627,089.31
Other non-current assets		–	–
Total non-current assets		2,539,094,920.09	2,300,715,798.94
TOTAL ASSETS		4,851,265,848.35	4,477,891,578.75

Consolidated Balance Sheet (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY	<i>Note</i>	31 December 2011	31 December 2010
Current liabilities			
Short-term borrowings		144,928,849.42	38,867,878.83
Financial liabilities held for trading		–	–
Notes payable		5,432,012.71	76,326,446.93
Accounts payable	7.2.5	350,249,598.28	264,375,227.56
Advances from customers		146,931,794.49	99,011,229.83
Employee benefits payable		64,167,157.18	61,258,810.66
Taxes payable		37,951,281.66	46,223,852.41
Interest payable		–	–
Dividends payable		136,440.45	113,739.69
Other payables		121,543,593.12	129,248,607.08
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		871,340,727.31	715,425,792.99
Non-current liabilities			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		4,423,405.56	4,423,405.56
Payables for specific projects		–	–
Provisions		–	14,396,857.57
Deferred tax liabilities		3,802,712.90	5,822,215.05
Other non-current liabilities		76,526,985.01	96,283,137.99
Total non-current liabilities		84,753,103.47	120,925,616.17
Total liabilities		956,093,830.78	836,351,409.16
SHAREHOLDERS' EQUITY			
Share capital		810,900,000.00	810,900,000.00
Capital surplus		1,148,016,718.97	1,152,720,122.24
Less: Treasury share		–	–
Surplus reserve		602,895,675.46	578,042,160.61
Undistributed profits		1,219,839,567.46	997,707,102.24
Difference on translation of foreign currency financial statements		–	–
Total equity attributable to shareholders of the Company		3,781,651,961.89	3,539,369,385.09
Minority interest		113,520,055.68	102,170,784.50
Total shareholders' equity		3,895,172,017.57	3,641,540,169.59
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		4,851,265,848.35	4,477,891,578.75

Consolidated Income Statement

ITEMS	Note	Year ended 31 December	
		2011	2010
1. Revenue	7.2.6	5,439,611,618.46	4,486,067,328.63
Less: Cost of sales	7.2.6	4,042,751,834.94	3,205,808,556.91
Taxes and surcharges		44,042,757.85	30,169,381.89
Selling and distribution expenses		710,833,473.66	617,315,402.02
General and administrative expenses		480,531,999.72	457,407,874.92
Financial expenses		1,853,078.95	(2,196,399.33)
Asset impairment losses		916,864.96	(3,763,751.23)
Add: Profit arising from changes in fair value		(3,541,599.52)	1,337,342.10
Investment income		153,785,668.56	115,352,676.91
Including: Share of profit of associates and jointly controlled entities		153,343,410.54	109,439,670.78
2. Operating profit		308,925,677.42	298,016,282.46
Add: Non-operating income	7.2.7	33,370,701.19	38,591,057.45
Less: Non-operating expenses		7,303,369.86	15,266,187.88
Including: Losses on disposal of non-current assets		1,333,448.86	9,497,258.02
3. Total profit		334,993,008.75	321,341,152.03
Less: Income tax expenses	7.2.8	34,996,150.14	47,309,681.49
4. Net profit		299,996,858.61	274,031,470.54
– Attributable to shareholders of the Company		287,530,980.07	267,111,879.76
– Minority interest		12,465,878.54	6,919,590.78
5. Earnings per share			
– Basic earnings per share	7.2.9	0.355	0.329
– Diluted earnings per share	7.2.9	0.355	0.329
6. Other comprehensive income		(5,206,746.38)	9,063,331.55
7. Total comprehensive income		294,790,112.23	283,094,802.09
– Attributable to shareholders of the Company		282,327,760.64	276,195,684.11
– Minority interest		12,462,351.59	6,899,117.98

7.2.1 Basis of preparation

The financial statements were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as “the Accounting Standards for Business Enterprises” or “CAS”) and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission.

7.2.2 Accounting policies

There are no significant changes in the accounting policies applied in preparing of these financial statements compared to the accounting policies applied in preparation of the financial statements for the year ended 31 December 2011.

7.2.3 Segment information

As the chief operating decision-maker, the Board of Directors (“BOD”) assesses performance of the operating segments and allocates resources by reviewing the Group’s internal reporting. 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 CPM produced by the Group’s manufacturing subsidiaries;
- 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.

Sales between segments are carried out on terms equivalent to those that prevail in arm’s length transactions.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the proportion of revenue.

(1) The segment information for Year 2011 and as of 31 December 2011 and are as follows:

	Pharmaceutical					
	Manufacturing	trading	Other trading	Unallocated	Elimination	Total
Revenue	2,591,579,999.93	2,064,256,363.56	760,648,411.45	23,126,843.52	–	5,439,611,618.46
Inter-segment revenue	24,617,692.86	530,451,338.16	–	18,265,157.76	(573,334,188.78)	–
Interest income	4,140,764.96	662,869.60	–	1,788,613.79	–	6,592,248.35
Interest expenses	6,580,926.53	25,359,390.53	–	3,731,430.52	(31,386,386.63)	4,285,360.95
Share of profit or loss of associates and jointly controlled entities	17,361,934.70	–	–	135,027,315.32	954,160.52	153,343,410.54
Asset impairment losses	1,201,912.94	1,194,233.85	255,087.00	(1,317,784.35)	(416,584.48)	916,864.96
Depreciation and amortization	104,079,691.73	4,172,575.32	–	2,332,909.41	–	110,585,176.46
Total profit	176,330,414.14	16,063,213.19	190,629.64	251,103,528.45	(108,694,776.67)	334,993,008.75
Income tax expenses	23,267,887.45	3,572,652.37	6,378.75	9,610,788.83	(1,461,557.26)	34,996,150.14
Net profit (Including: minority interest)	153,062,526.69	12,490,560.82	184,250.89	241,492,739.62	(107,233,219.41)	299,996,858.61
Total assets	2,632,322,421.44	912,705,739.19	62,167,939.38	3,614,609,987.23	(2,370,540,238.89)	4,851,265,848.35
Total liabilities	947,797,791.25	831,406,368.58	61,983,688.49	118,900,915.43	(1,003,994,932.97)	956,093,830.78
Long-term equity investments in associates and jointly controlled entities	46,780,795.49	–	–	1,202,014,262.96	512,345.01	1,249,307,403.46
Additions of non-current assets other than long-term equity investments	53,896,550.83	5,280,323.76	–	626,057.00	–	59,802,931.59

(2) The segment information for Year 2010 and as of 31 December 2010 and are as follows:

	Manufacturing	Pharmaceutical trading	Other trading	Unallocated	Elimination	Total
Revenue	2,239,318,638.65	1,718,554,775.59	508,472,764.86	19,721,149.53	–	4,486,067,328.63
Inter-segment revenue	(25,962,152.64)	611,416,573.10	–	14,605,463.94	(600,059,884.40)	–
Interest income	4,100,535.42	496,634.85	–	2,523,528.96	–	7,120,699.23
Interest expenses	8,064,923.23	17,149,927.01	–	683,125.00	(24,353,763.94)	1,544,211.30
Share of profit or loss of associates and jointly controlled entities	3,912,421.40	–	–	105,723,007.91	(195,758.53)	109,439,670.78
Asset impairment losses	(3,197,472.20)	(214,070.27)	84,015.06	(531,364.66)	95,140.84	(3,763,751.23)
Depreciation and amortization	106,285,527.78	4,204,680.00	–	2,255,473.85	–	112,745,681.63
Total profit	172,047,692.27	14,392,625.57	1,811,034.42	215,105,438.48	(82,015,638.71)	321,341,152.03
Income tax expenses	31,977,170.06	3,918,764.67	–	9,451,256.47	1,962,490.29	47,309,681.49
Net profit (Including: minority interest)	140,070,522.21	10,473,860.90	1,811,034.42	205,654,182.01	(83,978,129.00)	274,031,470.54
Total assets	2,469,113,443.54	828,000,691.14	11,335,054.70	3,340,212,065.39	(2,170,769,676.02)	4,477,891,578.75
Total liabilities	832,403,823.68	753,205,929.93	7,766,861.99	52,517,375.35	(809,542,581.79)	836,351,409.16
Long-term equity investments in associates and jointly controlled entities	29,418,860.79	–	–	916,660,841.38	631,618.86	946,711,321.03
Additions of non-current assets other than long-term equity investments	76,029,025.37	3,547,792.31	–	422,147.00	–	79,998,964.68

The Group's revenue from external customers in the People's Republic of China (the "PRC") and other countries, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries are summarized as follows:

Revenue from external customers	2011	2010
PRC	5,213,310,236.48	4,340,694,759.83
Other countries	226,301,381.98	145,372,568.80
	<u>5,439,611,618.46</u>	<u>4,486,067,328.63</u>
Total non-current assets	31 December 2011	31 December 2010
PRC	2,469,336,900.40	2,220,600,532.46
Other countries	12,308,079.48	12,872,932.01
	<u>2,481,644,979.88</u>	<u>2,233,473,464.47</u>

7.2.4 Accounts receivable

The majority of the Group's sales are transacted with credit terms of 3-6 months granted to customers. The remaining transactions are transacted at cash, advance or bank notes.

(a) The ageing of accounts receivable is analysed follows:

	31 December 2011	31 December 2010
Within 1 year	443,748,943.00	329,363,321.72
1 to 2 years	6,071,602.35	7,051,584.41
2 to 3 years	4,909,957.53	3,539,815.21
3 to 4 years	2,669,468.83	2,011,956.31
4 to 5 years	1,609,619.47	1,726,623.02
Over 5 years	4,263,326.51	17,930,001.19
	<u>463,272,917.69</u>	<u>361,623,301.86</u>
Less: Provision for bad debt	16,676,550.73	30,440,416.44
	<u>446,596,366.96</u>	<u>331,182,885.42</u>

7.2.5 Accounts payable

The ageing of accounts payable is analysed follows:

	31 December 2011	31 December 2010
Within 1 year	343,592,964.13	253,787,651.06
Over 1 year	6,656,634.15	10,587,576.50
	<u>350,249,598.28</u>	<u>264,375,227.56</u>

7.2.6 Revenue and cost of sales

	2011		
	Main operation	Other operation	Subtotal
Revenue	5,345,157,954.82	94,453,663.64	5,439,611,618.46
Cost of sales	4,026,305,531.86	16,446,303.08	4,042,751,834.94
Gross profit	1,318,852,422.96	78,007,360.56	1,396,859,783.52
	2010		
	Main operation	Other operation	Subtotal
Revenue	4,403,097,934.04	82,969,394.59	4,486,067,328.63
Cost of sales	3,188,572,898.34	17,235,658.57	3,205,808,556.91
Gross profit	1,214,525,035.70	65,733,736.02	1,280,258,771.72

7.2.7 Non-operating income

Gain on disposal of non-current assets amounting to RMB299,476.54 (2010: RMB8,403,858.75) are included in non-operating income.

7.2.8 Income tax expenses

	2011	2010
Current income tax	32,269,642.36	41,491,049.15
Deferred income tax	2,726,507.78	5,818,632.34
	<u>34,996,150.14</u>	<u>47,309,681.49</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2011	2010
Total profit	334,993,008.75	321,341,152.03
Income tax expenses calculated at applicable tax rates	83,748,252.19	80,335,288.01
Tax effect of different rates applicable to subsidiaries	(16,676,847.88)	(18,963,500.04)
Income not subject to tax	(38,335,852.64)	(27,359,917.70)
Expenses not deductible for tax purposes	4,166,870.32	2,218,203.77
Tax effect of utilisation of previously unrecognised tax losses	(1,202,603.30)	(415,960.59)
Tax losses for which no deferred income tax asset was recognised	2,732,635.68	3,418,782.80
Others	563,695.77	8,076,785.24
Income tax expenses	<u>34,996,150.14</u>	<u>47,309,681.49</u>

Seven subsidiaries of the Group, Zhong Yi, Jing Xiu Tang, Qi Xing, Xing Qun, Chen Li Ji, Pan Gao Shou, Guangzhou Han Fang, received the “Certificate of High/New Technology Enterprise”, which was jointly issued by Guangdong Provincial Department of Science and Technology, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau. A subsidiary of the Group, Guangxi Ying Kang Pharmaceutical Co. Ltd. received the “Certificate of High and New Technology Enterprise”, which was jointly issued by Department of Science and Technology of Guangxi Zhuang Autonomous Region, Department of Finance of Guangxi Zhuang Autonomous Region, Guangxi Zhuang Autonomous Region State Tax Bureau, Guangxi Zhuang Autonomous Region Local Taxation Bureau.

Pursuant to the relevant tax preference regulation of the PRC, the recognised New/High Technology Enterprises are entitled to the preferential enterprise income tax rate of 15%.

Except for the tax preference mentioned above, the Group pays the enterprise income tax in accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law” and the applicable enterprise income tax rate of the Group is 25%.

Among the eight subsidiaries of the Group recognised as New/High enterprises above, six subsidiaries’ qualification valid period are from 2008 to 2010. In 2011, the six subsidiaries applied to prolong their qualification as New/High Technology Enterprise, and have past the public notice period. Management considers that the six subsidiaries could prolong their qualification as New/High Technology Enterprise successfully, and enjoy the preferential enterprise income tax rate of 15%. Therefore, the applicable enterprise income tax rate for the six subsidiaries in calculating enterprising income tax for the year ended 31 December 2011 is 15%.

7.2.9 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit for the current period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	2011	2010
Consolidated net profit attributable to ordinary shareholders of the Company	287,530,980.07	267,111,879.76
Weighted average number of ordinary shares outstanding	<u>810,900,000</u>	<u>810,900,000</u>
Basic earnings per share	<u><u>0.355</u></u>	<u><u>0.329</u></u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. As for Year 2011, there were no potential ordinary shares (for Year 2010: nil), diluted earnings per share is equal to basic earnings per share.

7.2.10 Dividends

In accordance with the resolution passed at the Board of Directors' meeting held on 16 February 2012, the Company proposed a cash dividend of RMB0.10 per share to shareholders of the Company for the year 2011, amounting to RMB81,090,000.00 in total based on the number of shares issued amounting to 810,900,000 shares. This proposal will be submitted for approval at the Company's 2011 Annual General Meeting of shareholders.

In accordance with the resolution passed at the 2010 Annual General Meeting held on 21 June 2011, the Company distributed a cash dividend of RMB0.05 per share to shareholders of the Company, amounting to RMB40,545,000.00 in total based on the number of shares issued amounting to 810,900,000 shares.

7.2.11 Net current assets

	31 December 2011	31 December 2010
Current assets	2,312,170,928.26	2,177,175,779.81
Less: Current liabilities	871,340,727.31	715,425,792.99
Net current assets	<u>1,440,830,200.95</u>	<u>1,461,749,986.82</u>

7.2.12 Total assets less current liabilities

	31 December 2011	31 December 2010
Total assets	4,851,265,848.35	4,477,891,578.75
Less: current liabilities	871,340,727.31	715,425,792.99
Total assets less current liabilities	<u>3,979,925,121.04</u>	<u>3,762,465,785.76</u>

7.3 Explanation on possible changes in accounting policies, estimation and audit method when compared with the 2010 annual report.

Applicable Not applicable

7.4 Content, amended amount, reasons and impacts of major accounting errors

Applicable Not applicable

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

Applicable Not applicable

7.6 Explanation from the Board and the Supervisory Committee on the non-standard audit report issued by the auditors

Applicable Not applicable

The Board of
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 16 February 2012

As at the date of this summary, 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.