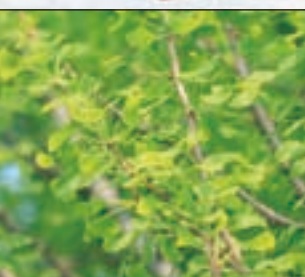




廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(Stock code: 874)



Annual Report 2011

Contents

1.	IMPORTANT NOTICE	1
2.	COMPANY PROFILE	2
3.	FINANCIAL DATA AND FINANCIAL HIGHLIGHTS	4
4.	CHANGES IN SHARE CAPITAL AND SHAREHOLDERS	8
5.	DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF	13
6.	CORPORATE GOVERNANCE	24
7.	SUMMARY OF SHAREHOLDERS' MEETINGS	36
8.	REPORT OF THE BOARD OF DIRECTORS	37
	<i>Management Discussion and Analysis</i>	37
	<i>Daily Operations of the Board of Directors</i>	53
	<i>Capital by Transfer from Capital Reserve</i>	54
	<i>Other Matters</i>	58
9.	REPORT OF THE SUPERVISORY COMMITTEE	62
10.	MAJOR EVENTS	65
11.	FINANCIAL REPORTS	76
12.	DOCUMENTS AVAILABLE FOR INSPECTION	240

1. Important Notice

- I. 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 report and confirm that there are no false information, misleading statements or material omissions in this report.
- II. 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.
- III. 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 report.
- IV. There has no non-operational appropriation of funds of the Company by its connected parties.
- V. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- VI. This annual report is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.

Company Profile

- I. Legal Chinese name: 廣州藥業股份有限公司
Chinese name abbreviation: 廣州藥業
English name: Guangzhou Pharmaceutical Company Limited
English name abbreviation: GPC
- II. Legal representative: Yang Rongming
- III. Secretary of the Board: Pang Jianhui
Representative of securities affairs: Huang Xuezheng
Address: 45 Sha Mian North Street, Liwan District, Guangzhou City,
Guangdong Province, the People's Republic of China
(the "PRC")
Telephone: (8620) 8121 8119/8121 8120
Fax: (8620) 8121 6408
E-mail: pangjh@gpc.com.cn / huangxz@gpc.com.cn
- IV. Registered address and office: 45 Sha Mian North Street, Liwan District, Guangzhou City,
Guangdong Province, the PRC
Postal code: 510130
Internet website: <http://www.gpc.com.cn>
E-mail: sec@gpc.com.cn
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center,
89 Queensway, Hong Kong
- V. Designated newspapers for information disclosure: Mainland China: Shanghai Securities News,
Securities Times
Internet website designated by the China Securities Regulatory Commission for publishing this annual report: <http://www.sse.com.cn>
Internet website designated by The Stock Exchange of Hong Kong Limited for publishing this annual report: <http://www.hkex.com.hk>
Place where this annual report is available for inspection: The Secretariat of Guangzhou Pharmaceutical Company Limited

Company Profile

- VI. Place of listing, name and codes of the Company's shares:
- A Shares: The Shanghai Stock Exchange
Stock Code: 600332 Stock Abbreviation: GZ Phar.
H Shares: The Stock Exchange of Hong Kong Limited
Stock Code: 0874 Stock Abbreviation: GZ Phar.
- VII. Other corporate information
- First registration date: 1 September 1997
First place of registration: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
- Registration date for subsequent change: 19 July 2011
- Place of registration for subsequent change: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
- Business registration number: 440101000005674
Tax registration number: 44010063320680x
Organization code: 63320680-X
Auditors: PricewaterhouseCoopers Zhong Tian CPAs Limited Company
11/F PricewaterhouseCoopers Center 202 Hu Bin Road, Shanghai, the PRC

Financial Data and Financial Highlights

Items	2011 (RMB'000)
Operating profit	308,926
Total profit	334,993
Net profit attributable to the shareholders of the Company	287,531
Net profit attributable to the shareholders of the Company after deducting non-recurring items	265,742
Net cash inflows from operating activities	(180,053)

Notes:

- The above financial data and indicators are computed based on the consolidated financial statements.
- Items and amounts related to non-recurring items include:

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 recognised 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 recognised 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

Financial Data and Financial Highlights

PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

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

Financial Data and Financial Highlights

PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS (Continued)

Principal accounting data	2011	2010	Year on year increase/ (decrease) (%)	2009
Basic earnings per share (RMB)	0.355	0.329	7.64	0.260
Diluted earnings per share (RMB)	0.355	0.329	7.64	0.260
Latest equity earnings per share(RMB)	N/A	N/A	N/A	N/A
Basic earnings per share after deducting non-recurring items (RMB)	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 full diluted return on net assets after deducting non-recurring items (%)	7.25	6.82	An increase of 0.43 percentage point	4.87
Net cash flow from operating activities per share (RMB)	(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 (RMB)	4.66	4.36	6.85	4.07
Gearing ratio (%)	19.71	18.68	An increase of 1.03 percentage points	19.51

Financial Data and Financial Highlights

CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD IN 2011 (CONSOLIDATED)

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Surplus reserve (RMB'000)	Retained earnings (RMB'000)	Shareholders' equity (RMB'000)
Opening balance	810,900	1,152,720	578,042	997,707	3,539,369
Additions	–	500	24,853	287,532	312,885
Deductions	–	5,203	–	65,399	70,602
Closing balance	810,900	1,148,017	602,895	1,219,840	3,781,652

Reasons for the changes:

- (1) Changes in capital reserve for the Year was mainly contributed by the fact that the listing and new issue of shares of China Everbright Bank Company Limited, which is held by the Company, was measured at fair value, resulting in a decrease of RMB4,091,000 in capital reserve.;
- (2) Changes in surplus reserves: increase in surplus reserve for the Year resulted from the statutory surplus reserve accrued by the Company according to its net profit for the Year.

ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Amount 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)

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

1. Movement in share capital and its components

During the Reporting Period, the Company's share capital has not changed.

2. Securities issuance in the past three years

The Company had not issued or listed any securities in the past three years.

3. Internal staff shares

The Company does not have any internal staff shares.

II. INFORMATION ON SHAREHOLDERS

1. Number of shareholders as at the end of the Reporting Period

As at 31 December 2011, there were 54,015 shareholders in total, out of which 53,977 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 38 were holders of overseas listed foreign capital share (H shares).

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS (Continued)

2. Shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 December 2011, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKEx") pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Nature of shares	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)	Short Positions		Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity			Number of shares held (share)	Capacity	
Guangzhou Pharmaceutical Holdings Limited ("GPHL")	Domestic shares	390,833,391	Beneficial owner	66.13	-	-	-	-
FIL Limited	H shares	28,248,000	Investment manager	-	12.85	-	-	-
Deutsche Bank Aktiengesellschaft	H shares	7,628,937	Beneficial owner	-	3.47	7,506,000 (note)	Beneficial owner	3.41
		174,000	Investment manager	-	0.08	-	-	-
		8,680,000	Person having a security interest in shares	-	3.95	-	-	-

Note: Among which, 6,000 H shares are short positions of equity derivatives in the underlying shares of the Company amounting to approximate 0.003% of the total issued H shares.

As far as the directors are aware, as at 31 December 2011, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of any class of the issued share capital of the Company.

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

3. The top ten shareholders of the Company

The top ten shareholders of the Company as at 31 December 2011 are set out as follows:

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 the total issued share capital (%)	Number of shares with selling restrictions held (share)	Number of pledged or locked shares (share)
GPHL	Domestic shares	0	390,833,391	48.20	Nil	Nil
HKSCC Nominees Limited	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

Note: According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

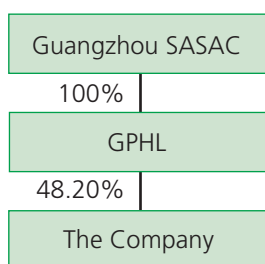
Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

4. Information of the Company's controlling shareholder and its beneficial owner

Name of shareholder	GPHL
% 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.

As at the end of the Reporting Period, the controlling shareholder of the Company was GPHL, the beneficial owner of which was the State-owned Assets and Administration Commission of Guangzhou Municipal Government ("Guangzhou SASAC").



Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

5. Other shareholders holding 10% or more of the Company's total issued shares

As at the end of the Reporting Period, the Company had no other shareholders holding 10% or more of the Company's total issued shares.

6. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the Reporting Period.

7. During the Reporting Period, there was no change in the controlling shareholder of the Company.

III. 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 issue of this report.

IV. 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.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Executive directors

Mr. Yang Rongming, aged 58, chairman of the Company, is a postgraduate and senior economist, currently the chairman and secretary of the Party Committee of GPLH. Mr. Yang started his career in October 1970 and served as vice factory manager of Guangzhou Monosodium Glutamate and Food Factory, deputy general manager of Guangzhou Ao Sang Monosodium Glutamate & Food Co., Ltd., director and general manager of Guangzhou Eagle Coin Enterprises Group Corporation, chairman and general manager of Guangzhou Zhujiang Brewery Group Co., Ltd., chairman of Guangzhou Zhujiang Brewery Co., Ltd. and director of Guangzhou Pharmaceuticals Corporation (“GP Corp.”). Mr. Yang has served as director of the Company since 1 November 2004. He is also on behalf of Guangzhou party congress and committee member of Guangzhou Political Consultative Conference, director of Guangzhou Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”), Guangzhou Zhong Yi Pharmaceutical Co., Ltd. (“Zhong Yi”), Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (“Ming Xing”) and Polian Development Co., Ltd. (“Polian Company”), and a member of Management Committee of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan Hejigong Pharmaceutical Factory (“Hejigong Pharmaceutical Factory”). Mr. Yang has extensive experience in business management and sales and marketing.

Mr. Li Chuyuan, aged 46, vice chairman of the Company, holds a bachelor degree and master degree in Executive Business Administration, and is a senior economist. Mr. Li started his career since July 1988 and had been deputy director of operation department of Guangzhou Baiyunshan Pharmaceutical General Factory, assistant to general manager and deputy general manager of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“Baiyunshan Co., Ltd.”). Mr. Li has served as director of the Company since June 2010. He currently is the deputy chairman of the Science, Education, Sanitation and Sport Committee of Guangdong Political Consultative Conference, committee member of Guangdong Province Political Consultative Conference, a member of Guangzhou Municipal People’s Congress and on behalf of Guangzhou party congress, general manager, vice chairman, deputy secretary of the Party Committee of GPLH, chairman of Baiyunshan Co., Ltd., general manager of Guangzhou Hutchison Whampoa Chinese Medicine Co., Ltd., vice chairman of GP Corp., director of Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”), Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd (“Chen Li Ji”), Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (“Cai Zhi Lin”), Guangzhou Pharmaceutical Import & Export Co., Ltd. (“Import & Export Co., Ltd.”), Ming Xing and Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd., a member of Management Committee of Guangzhou Baiyunshan Pharmaceutical Factory, Guangzhou Baiyunshan Chemical Pharmaceutical Factory, Hejigong Pharmaceutical Factory and convenor of the board of directors of Polian Company. Mr. Li has extensive experience in the fields of corporate management and marketing.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

1. Executive directors *(Continued)*

Mr. Shi Shaobin, aged 44, director of the Company, is a master degree postgraduate and senior engineer. Mr. Shi started his career since June 1989 and served as technician of a research institute, staffer of the marketing and promotion department, head of the administrative department, assistant to the general manager and manager of the marketing department and deputy general manager of Jing Xiu Tang, chairman and general manager of Wang Lao Ji, chairman of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. (“Guangzhou Han Fang”), chief executive and secretary of the Party Committee of Wang Lao Ji, factory manager of Guangzhou Qi Xing Pharmaceutical Factory, chairman of Guangzhou Qi Xing Pharmaceutical Co., Ltd. (“Qi Xing”), vice chairman of Guangzhou Nuo Cheng Bio-tech Co., Ltd. (“Nuo Cheng”), director of Guangzhou Bai Di Bio-technology Co., Ltd. (“Guangzhou Bai Di”), general manager of the Company and supervisor of Labour Union of GPLL. Mr. Shi has served as the director of the Company since 2 April 2007. Mr. Shi is also director and deputy general manager of GPLL, vice chairman of Wang Lao Ji, secretary of the Party Committee of GP Corp. and director of Zhong Yi. Mr. Shi has extensive experience in production, marketing and operation management.

Mr. Wu Changhai, aged 46, has served as director of the Company since June 2010, bachelor of engineering, economist, graduated from Tongji University in July 1989 and started his career in the same year, and studied as graduate student in world economics at Sun Yat-sen University from September 1997 to October 1999. He served as assistant to the supply section chief, assistant chief of the supply section, assistant manager of the supply and marketing manager department of Guangzhou Zhong Sheng Pharmaceutical Factory; regional sales manager of the supply and marketing department, manager of the regional marketing center, assistant manager of the marketing department and manager of the central marketing center of Zhong Yi; deputy general manager of Guangxi Ying Kang Pharmaceutical Co., Ltd. (“Guangxi Ying Kang”); deputy general manager and acting general manager of Zhong Yi. Mr. Wu is currently a member of Guangzhou Municipal People’s Congress, chairman, general manager and secretary of the Party Committee of Zhong Yi, chairman of Qi Xing and director of Chen Li Ji. Mr. Wu has served as the general manager of the Company since 21 May 2010, and has extensive experience in operation management and marketing.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

2. Independent non-executive directors

Mr. Liu Jinxiang, aged 71, has served as an independent non-executive director of the Company since 15 June 2007. Mr. Liu graduated from Xi'an Construction Technology University in 1964. He was an independent non-executive director of the Company from August 2000 to March 2004, chairman of Yue Xiu Enterprises (Holdings) Limited and Yue Xiu Investment Company Limited, chairman of Yue Xiu Transportation Company Limited, head of Guangzhou Economic Committee and vice-mayor of Guangzhou City. Mr. Liu is also an independent non-executive director of Guangzhou Development Industry (Holdings) Co., Ltd. and Guangdong China Sunshine Media Co., Ltd. Mr. Liu has more than 40 years of experience in industrial technology, enterprise and economic affairs management.

Mr. Li Shanmin, aged 49, has served as an independent non-executive director of the Company since 15 June 2007. Mr. Li graduated from Nanjing Agricultural University with a doctorate degree in management science in 1990. He is currently a professor of the School of Management of Sun Yat-sen University, the mentor of Ph. D. students whose majors are in finance and investment, assistant to the president and section chief for finance and state-owned asset section of Sun Yat-sen University. Mr. Li is also acting as an independent director of Hubei Yihua Chemical Industry Co., Ltd., Guangdong Haida Group Co., Ltd., Dongguan Development (Holdings) Co., Ltd., SUNWODA Electronics Co., Ltd. and Guangdong Finance Trust Company Limited, and director of Guangzhou Zhujiang Industrial Co., Ltd.

Mr. Zhang Yonghua, aged 53, has served as an independent non-executive director since 15 June 2007. Mr. Zhang graduated from Huazhong Normal University with a bachelor degree in Law in 1982 and received a Master degree in Law in 1989. He is currently the director of Education and Legal System Institute under the School of Law of Guangdong University of Foreign Studies. Mr. Zhang acted as deputy director of Publicity Department and vice-professor of School of Political Science & Law of Huazhong Normal University, deputy director of Minor Department of Guangzhou University of Foreign Studies and deputy director of Guangdong University of Foreign Studies. Mr. Zhang is currently director of Guangdong Law Society, member of expert of emergency management of Guangdong Government, consultancy expert of the decision-making of Guangzhou Municipal Government, consultancy expert of the law-decision-making of Guangzhou Municipal Government, member of expert of emergency management of Guangzhou Government, and intercessor of Guangzhou Arbitration Commission.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

2. Independent non-executive directors *(Continued)*

Dr. Wong Lung Tak Patrick, aged 64, the Institute of Chartered Accountants in England and Wales, was awarded the Bronze Bauhinia Star, PhD, JP, has been an independent non-executive director of the Company since 28 June 2010. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales, the Association of Certified Public Accountants, the Association of International Accountants, the Society of Chinese Accountants and Auditors of Hong Kong, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries, the Taxation Institute of Hong Kong and the Hong Kong Institute of Directors Ltd and a certified tax advisor. Dr. Wong is the director and general manager of Wong Lam Leung & Kwok C.P.A. Limited, director and general manager of Hong Kong Pengcheng C.P.A. Limited, director and general manager of Patrick Wong C.P.A Limited, independent non-executive director of CC Land Holdings Limited, independent non-executive director of Galaxy Entertainment Group Limited, independent non-executive director of Water Oasis Group, independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., independent non-executive director of Vertex Group Limited, independent non-executive director of Swiss International Co., Ltd., independent non-executive director of China's Oil and Gas Holdings Limited and independent non-executive director of Winox Holdings Limited. Dr. Wong has over 30 years' experience in the accountancy profession. Among his qualifications, he obtained a Doctor of Philosophy in Business and he is an adjunct professor of School of Accounting and Finance of the Hong Kong Polytechnic University, awarded a Badge of Honour in 1993 by the Queen of England and appointed a Justice of the Peace in 1998, and awarded the Bronze Bauhinia Star in 2010. Dr. Wong involves in many other community services, holding posts in various organizations and committees in government and voluntary agencies.

Mr. Qiu Hongzhong, aged 55, a master degree postgraduate and professor, has served as independent non-executive director of the Company since 28 June 2010. He graduated in 1981 with a degree in clinical medicine and was a master degree postgraduate in 1988 respectively. He was a senior visiting scholar of anthropology in Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of C.P.C. Mr. Qiu had been the head of the Medical Department in DongJiang Hospital of Eighth Engineering Bureau, deputy director of Department of Society Science in Guangzhou University of Traditional Chinese Medicine, deputy head of Huodao Town, Gaoyao County of Guangdong Province, a visiting scholar of anthropology in Sun Yat-sen University, standing vice president, president and the secretary of the Communist Party Committee of School of Economic and Management in Guangzhou University of Traditional Chinese Medicine. Mr. Qiu is currently the president, graduate tutor, professor and chief physician of School of Economic and Management in Guangzhou University of Traditional Chinese Medicine, and is also a member of the Medicine Teaching and Guidance Committee of Higher Education Institution under the Ministry of Education of China, deputy director of Psychology of TCM in Chinese Medical Association of Guangdong Province, editor of the national core journal – Journal of Medicine and Philosophy, standing director of the Society of Chinese Medicine and Health Economics, an expert of Health Economics Institute of Guangdong Academy of Medical Sciences and standing vice-chairman of School of Management of Hospital of Traditional Chinese Medicine of Guangdong Provincial Association of Chinese Medicine. Mr. Qiu has extensive experience in economic management and pharmaceutical industry.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

3. Supervisors

Ms. Yang Xiuwei, aged 53, Assistant Engineer, senior political, has served as chairlady of the Supervisory Committee of the Company since 15 June 2007. Ms. Yang started her career in July 1974. She graduated as a part-time graduate student from the Party School of the Central Committee of the C.P.C and majored in economic management in July 2003. Ms. Yang has been the clerk at Vice-Director Level for Complaint Letter and Visit Office, inspector at Vice-Section Level, inspector at Section Level and deputy director at Vice Department Level, deputy director at Department Level for the Bureau of Supervision under Guangzhou Municipal Commission for Inspecting Discipline. Ms. Yang is currently deputy secretary of the Party Committee, secretary of the Discipline Committee of GPLH and secretary of the Party Committee of the Company, director and secretary of the Party Committee of Baiyunshan Co., Ltd., director of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ("Pan Gao Shou"), Qi Xing and Polian Company, secretary of the Party Committee of Xing Qun.

Mr. Wu Quan, aged 55, is an undergraduate, senior political, and has served as supervisor of the Company since 15 June 2007. Mr. Wu started his career in February 1976 and graduated from the Guangzhou Institute of Education with his major in Chinese in July 1988. Mr. Wu acted as chief officer of Cannon Camp, vice company commander of Guangdong Independent Division, advisor at deputy company commander level, advisor at company commander level for military equipment section under the command of Guangdong Zhangjiang Military Sub-area, advisor at a deputy battalion level, advisor at a battalion level, deputy section chief and section chief for military equipment section under the command of Guangdong Military Area, deputy secretary of the Party Committee, secretary of the Discipline Commission and secretary of the Party Committee of Cai Zhi Lin. Mr. Wu is currently secretary of the Discipline Commission of the Company and secretary of the Party Committee of Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.

Mr. Zhong Yugan, aged 56, has served as supervisor of the Company since March 2004. Mr. Zhong graduated from the Business Economics Department of Beijing Business College in 1982 and was awarded a Bachelor of Arts in economics. He studied abroad in the University of 契里爾•麥托蒂 in the former Yugoslavia from 1985 to 1987. Mr. Zhong had consecutively been head of Business Management Department, head of Business Administration Faculty, Professor of management studies and tutor of Master degree postgraduates in the Guangdong Business College from 1997 to June 2008. He is currently a professor in School of Business of Guangdong University of Foreign Studies, dean of the School of International Business Management and master instructor. Mr. Zhong is also vice chairman of the Association of Marketing Research of China Higher Institutes, committee member of academic work of the Association of China International Public Relations and vice chairman of Guangdong Marketing Association. Mr. Zhong has extensive experience in the fields of marketing and sales, strategic decision-making and corporate management.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

4. Senior management

Mr. Su Guangfeng, aged 47, an engineer with a bachelor degree in Industrial Studies, Guangzhou Haizhu District People's Congress, has served as deputy general manager of the Company since June 2005. Mr. Su joined Baiyunshan Co., Ltd. in 1987 and served as the deputy chief of the Operation Department of Baiyunshan Co., Ltd, and deputy plant head of Guangzhou Baiyunshan Chinese Medicine Factory, manager of Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited ("Ying Bang Branch"), chairman and general manager of Xing Qun and chairman of Pan Gao Shou. Mr. Su has extensive experience in enterprise management, sales and marketing.

Mr. Chen Binghua, aged 46, the financial controller and senior manager of the Finance Department of the Company, an accountant with a Master degree in Business Administration. Mr. Chen was general manager of Shanghai Pudong Xidi Co., Ltd., general finance manager of China Foreign Trade Development Company and financial chief of O-NET Communications Ltd. He is also a director of Chen Li Ji, Cai Zhi Lin, Import & Export Co., Ltd, Guangzhou Bai Di and Guangxi Ying Kang, supervisor of GP Corp. and supervisor of Nuo Cheng. He has been the senior manager of the Finance Department of the Company since 2002 and the financial controller of the Company since December 2005. Mr. Chen has extensive experience in accounting and financial management.

Mr. Pang Jianhui, aged 39, joint company secretary and secretary of the Board of the Company, a senior engineer with a bachelor of Science degree in Pharmaceutical Science. Mr. Pang joined GPHL in 1996, and served as the business head of Investment Department of GPHL, officer of Import & Export Co. Ltd., business manager and department manager of the Business Department of its Hong Kong subsidiary and deputy director of its Investment Department and director of Wang Lao Ji. Mr. Pang is also director of Pan Gao Shao, Guangzhou Han Fang and Guangxi Ying Kang. Mr. Pang has been the secretary of the Board of the Company since July 2008, has been joint company secretary since 29 September 2010. He has extensive experience in pharmaceutical manufacturing and management.

Directors, Supervisors, Senior Management and Staff

II. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES (A SHARES) OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

Name	Position	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Reason for change
Yang Rongming	Chairman	Nil	Nil	-
Li Chuyuan	Vice chairman	Nil	Nil	-
Shi Shaobin	Executive director	Nil	Nil	-
Wu Changhai	Executive director, general manager	Nil	Nil	-
Liu Jinxiang	Independent non-executive director	Nil	Nil	-
Li Shanmin	Independent non-executive director	Nil	Nil	-
Zhang Yonghua	Independent non-executive director	Nil	Nil	-
Wong Lung Tak Patrick	Independent non-executive director	Nil	Nil	-
Qiu Hongzhong	Independent non-executive director	Nil	Nil	-
Yang Xiuwei	Chairlady of the Supervisory Committee	Nil	Nil	-
Wu Quan	Supervisor	Nil	Nil	-
Zhong Yugan	Supervisor	Nil	Nil	-
Su Guangfeng	Deputy general manager	Nil	Nil	-
Chen Binghua	Financial controller	6,240	6,240	-
Pang Jianhui	Secretary to the Board	Nil	Nil	-

Directors, Supervisors, Senior Management and Staff

III. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

1. As at 31 December 2011, the interests or short positions of the directors, supervisors and senior management in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on HKEx (the "Listing Rules") to be notified to the Company and the HKEx were as follows:

Directors

Name	Type of interest	Company	Number of shares (share)
Shi Shaobin	Family	Jing Xiu Tang	11,000

Senior management

Name	Type of interest	Company	Number of shares (share)
Chen Binghua	Personal	A shares of the Company	6,240

2. Save as disclosed above, as at 31 December 2011, none of the directors, supervisors, senior management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

Directors, Supervisors, Senior Management and Staff

IV. EMOLUMENTS FOR THE YEAR

1. Policy on determining emoluments

The annual emoluments for directors and supervisors were proposed by the Board and approved at the Annual General Meeting of the Company at which the Board was authorized to determine the amount of emoluments and method of payment for services of the Company's directors and supervisors. The amount of emoluments and payment method for the senior management were determined by the Board after taking into account of the Company's operating results and individual performance.

2. Emoluments for the Year

During the Year, the total emoluments of the directors, supervisors and senior management of the Company who received emoluments from the Group amounted to RMB2,595,000, details of which are set out as follows:

Name	Emoluments received from the Group		Whether emoluments were received from the Company's shareholder or connected parties
	Whether emoluments were received from the Group	Total emoluments for the Year (RMB'000)	
Directors			
Yang Rongming	No	–	Yes
Li Chuyuan	No	–	Yes
Shi Shaobin	Yes	20	Yes
Wu Changhai	Yes	753	No
Wong Lung Tak Patrick	Yes	80	No
Qiu Hongzhong	Yes	80	No
Liu Jinxiang	Yes	80	No
Li Shanmin	Yes	80	No
Zhang Yonghua	Yes	80	No
Supervisors			
Yang Xiuwei	No	–	Yes
Wu Quan	Yes	207	Yes
Zhong Yugan	Yes	30	No
Senior management			
Su Guangfeng	Yes	451	No
Chen Binghua	Yes	383	No
Pang Jianhui	Yes	351	No
Total	–	2,595	–

Directors, Supervisors, Senior Management and Staff

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year *(Continued)*

Notes:

- ① The emoluments of Mr. Yang Rongming, Mr. Li Chuyuan, Mr. Shi Shaobin and Ms. Yang Xiuwei for the Year were the emoluments they received from the Company's shareholder. The emoluments Mr. Shi Shaobin received from the Group for the Year stated in the above table were the settlement balance of his emoluments for the previous year.
- ② The emoluments of Mr. Wu Changhai and Mr. Su Guangfeng for the Year were the emoluments they received from the Company and a subsidiary of the Company.
- ③ The emoluments of Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Zhong Yugan, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chen Binghua and Mr. Pang Jianhui for the Year were the emoluments they received from the Company.
- ④ The emoluments Mr. Wu Quan received from the Group for the Year stated in the above table were the emoluments he received from the Company for the period from 1 January 2011 to 31 March 2011 and the settlement balance of his emoluments for the previous year.

V. THERE IS NO APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD.

VI. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the present directors and supervisors has entered into a service contract with the Company. The contract term commenced from 28 June 2010 up to the date of election of the sixth session of the Board.

The term of office of each director and supervisor of the Company commenced from the date of their respective appointments to the date of election of new sessions of the Board and the Supervisory Committee. The term of each session of the Board or the Supervisory Committee shall be approximately three years. All directors and supervisors are eligible to offer themselves for re-election.

The above-mentioned service contracts with the directors and supervisors do not contain any provisions for compensation for early termination of contract, nor for failure in being re-elected after expiration of their term of office.

VII. INTERESTS IN CONTRACTS OF DIRECTORS AND SUPERVISORS

No contract of significance in relation to the business of the Group to which the Company, its subsidiaries or its holding company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Directors, Supervisors, Senior Management and Staff

VIII. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted Appendix 10 of the Listing Rules titled “Model Code for Securities Transactions by Directors of Listed Issuers” and “Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management” as stipulated by the Company as the code and criteria for securities transactions by directors and supervisors of the Company. After making specific inquiry of all the directors and supervisors, the Company confirmed that its directors and supervisors had fully 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.

IX. 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 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, paid different rates of remuneration to different employees, based on the employees’ performance, experience, position and other factors.

Corporate Governance

I. CORPORATE GOVERNANCE

The Company has been strictly complying with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, related laws and regulations of the China Securities Regulatory Commission ("CSRC") and the Listing Rules of The Shanghai Stock Exchange (the "SSE") and the HKEx to continuously improve the management structure and regulate the operations of the Company.

As at the end of the Reporting Period, the corporate governance of the Company was in compliance with the Corporate Governance Guidelines, and there were no material discrepancies.

1. Shareholders and General Meetings of Shareholders

The Company is endeavored to ensuring equality among all shareholders, especially the minority shareholders so that they can fully exercise their rights and undertake their obligations accordingly, and to ensure that the shareholders will be informed and are able to participate in the important matters of the Company specified in laws, administrative regulations and the Articles of Association, establishing an effective channel for the Company to communicate with the shareholders. The general meeting of shareholders is convened and held in strict compliance with the Rules for Shareholders' General Meetings of Listed Companies issued by CSRC and Rules and Procedures for Shareholders' General Meetings of the Company. The Company complies strictly with the relevant requirements in respect of voting matters and voting procedures so as to safeguard the legal interests of the Company and its shareholders. The accountant and the lawyer will be present at the meeting as witnesses. The Company encourages all shareholders to attend the meetings and welcome shareholders to express their opinions at the meetings.

2. Relationship between the Controlling Shareholder and the Company

GPHL, as the controlling shareholder of the Company, exercises its power and accepts its obligations in accordance with the laws, and has not acted beyond the shareholders' meetings to interfere directly or indirectly in the Company's operations. The Company and GPHL have been working separately in respect of assets, business, organization, finance and human resources and are independent of each other. The Board, the Supervisory Committee and the internal departments of the Company operate independently.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors

(1) Composition

The Board is the core decision-making body entrusted by general meeting of the shareholders to be in charge of the operation and management of the Company's assets. The Board is accountable to the shareholders.

The present Board is the fifth session since the establishment of the Company. It consists of nine members, of which there are four executive directors and five independent non-executive directors. Each director has a term of office commencing from 28 June 2010 to the date of election of a new session of the Board.

Directors shall be elected or removed by general meeting of shareholders, at which a cumulative voting system is adopted for the election of directors. Directors are eligible for re-election upon expiration of their term of office. All independent non-executive directors are independent persons, and are not connected with the Company and its substantial shareholders. Their terms of office shall not exceed six years.

The role of chairman and general manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the chairman, who is in charge of the routines of the Board and the examination of the carrying out of the resolutions passed at Board meetings. The general manager works under the leadership of the Board. The principal responsibilities of the general manager include management of the Company's daily operations and implementation of the resolutions passed at the Board.

Members of the Board have different industry backgrounds, expertise and extensive experience in areas such as business management, accounting, finance, pharmaceuticals, law and investment planning.

All the directors of the Company can obtain from the secretary of the Board and the Secretariat to the Board of the Company timely relevant information and updates of the statutory and regulatory regulations that directors of listed companies must be abided by and that are related to their continuing obligations to ensure that the directors understand their duties and that the procedures of Board meetings are implemented and complied with appropriately. The directors and the special committees of the Board are both entitled within the scope of their powers to engage the services of independent professional institutions for performing their duties or for the business operation when needed. The Company shall bear the reasonable cost incurred thereof.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

(2) Board Meetings

In 2011, eight Board meetings were convened, (in which four times in physical meeting and four times by written resolutions) at which the investment projects, connected transactions and financial matters of the Group were discussed. Effective discussions and prudent decisions were made at such meetings.

The attendance of directors at Board meetings during the Reporting Period is set out below:

Directors	Whether is the independent non-executive directors	Required meeting attendance for the Year	Frequencies of meetings attended in person	Frequencies of meetings attended by phone	Frequencies of meetings attended by proxy	Absence	Whether is unable to attend two consecutive meetings in person	Remarks
Yang Rongming	No	8	8	0	0	0	No	-
Li Chuyuan	No	8	8	0	0	0	No	-
Shi Shaobin	No	8	8	0	0	0	No	-
Wu Changhai	No	8	8	0	0	0	No	-
Liu Jingxiang	Yes	8	7	0	1	0	No	-
Li Shanmin	Yes	8	8	1	0	0	No	-
Zhang Yonghua	Yes	8	8	0	0	0	No	-
Wong Lung Tak Patrick	Yes	8	8	1	0	0	No	-
Qiu Hongzhong	Yes	8	7	0	1	0	No	-

(3) Independent non-executive directors

Currently, the Company has 5 independent non-executive directors, representing more than 1/2 of the total members of the Board. All the independent non-executive directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the independent non-executive directors attended Board meetings and general meetings of shareholders in a careful, responsible and active manner. They had done a lot of work on improving the Company's corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the shareholders. All of the 5 independent non-executive directors of the Company were members of the special committees formed under the Board.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

(3) Independent non-executive directors *(Continued)*

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

During the Reporting Period, the independent non-executive directors of the Company expressed no dissenting views to the Board resolutions and other matters other than the Board resolutions.

The Board confirmed the receipt from each of the independent non-executive directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of the HKEx. The Board considered the existing independent non-executive directors to be independent persons as defined in Rule 3.13 of the Listing Rules of the HKEx.

Pursuant to the Notice ([2011] No.41) issued by CSRC on 31 December 2011 and the "Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies" issued by the SSE, the independent non-executive directors studied the relevant requirements set out in the Notice seriously. The Company reported to the independent non-executive directors on production and operation issues and the progress of major events, and submitted a framework for the preparation of 2011 Annual Report, arranged auditing work and relevant information. After the issuance of audit recommendations by the domestic and international auditors of the Company, the independent non-executive directors communicated with the auditors regarding problems related to the auditing process.

(4) Loan or guarantee for loan granted to the directors

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the directors, supervisors and senior management of the Company, the Company's controlling shareholder or their respective connected persons.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board

(1) Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality, quantity and procedure of the Group's financial reporting; to review the completeness and effectiveness of the Company's internal control system; to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The Audit Committee of the fifth session of the Board comprises Mr. Wong Lung Tak Patrick (head of the Committee), Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua and Mr. Qiu Hongzhong. All five of them are independent non-executive directors of the Company and are qualified under relevant requirements. The term of office of the members of the Audit Committee commences from 28 June 2010 to the date of election of the new session of the Board. During the year, the Audit Committee held three meetings, which were chaired by Mr. Wong Lung Tak Patrick. All of the committee members attended the meetings.

(2) Strategic Development and Investment Committee

In February 2001, the Company established the Investment Management Committee, which was renamed as Strategic Development and Investment Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to research and issue recommendations on the long-term strategic development and significant investment decisions of the Company and to examine and approve investment projects intended to be implemented by the Company with authorization from the Board.

The Strategic Development and Investment Committee of the fifth session of the Board comprises Mr. Yang Rongming (head of the Committee), Mr. Li Chuyuan and Mr. Shi Shaobin, executive director, as well as Mr. Liu Jinxiang and Mr. Li Shanmin, the independent non-executive directors. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 June 2010 to the date of election of the new session of the Board. During the Year, the Strategic Development and Investment Committee held two meetings. All of the committee members attended the meetings.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to research on the standards of performance assessment of directors and senior management, to conduct the assessment and to issue recommendations, to study and examine the remuneration policies and proposals of directors and senior management, to research on the selection standards and procedures of directors, general managers and other senior management and to issue recommendations, and to extensively look for qualified persons to be directors and senior management, to conduct examination on them and to issue recommendations.

The Nomination and Remuneration Committee of the fifth session of the Board comprises Mr. Li Chuyuan and Mr. Wu Changhai, executive directors, and Mr. Li Shanmin (head of the Committee), Mr. Zhang Yonghua and Mr. Qiu Hongzhong, the independent non-executive directors. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 June 2010 to the date of election of the new session of the Board. During the Reporting Period, the Committee held one meeting, at which the Company's remuneration proposals of directors, supervisors and senior management for 2011 were considered. All of the committee members attended the meeting.

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to provide guidance on the formulation of the budgeting plans and business objectives of the Company for the year and to supervise and inspect the respective implementation.

The Budget Committee of the fifth session of the Board comprises Mr. Shi Shaobin and Mr. Wu Changhai, executive directors, and Mr. Liu Jinxiang (head of the Committee), Mr. Li Shanmin and Mr. Wong Lung Tak Patrick, independent non-executive directors. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 June 2010 to the date of election of the new session of the Board. During the Reporting Period, the Committee held one meeting, considered the company's 2011 business objectives and the 2011 budget work. All of the committee members attended the meeting.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

5. The Supervisory Committee

The Supervisory Committee exercises their supervision power legally to safeguard the lawful interests of the shareholders, the Company and employees. The number and composition of the Supervisory Committee of the Company comply with the relevant laws and regulations. During the Reporting Period, four meetings were held by the Supervisory Committee. All members of the Supervisory Committee attended all the meetings to monitor the Company's financial conditions and the legitimacy of performance of the Company's directors and senior management on behalf of the shareholders. They also attended all the meetings of the Board and discharged their duties seriously.

6. Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society; at the same time concerned about environmental protection, public welfare and other issues in the economic exchanges so as to mutually promote the sustainable and sound development of the Company.

7. Information disclosure and management of relationship with investors

The Company delegated the secretary to the Board with the responsibility for handling the Company's information disclosure, arranging company visits and answering enquiries from shareholders and investors and responding to correspondence from shareholders in a timely manner. The Company has designated Shanghai Securities News and Securities Times in the PRC to publish the Company's information and disclose such at websites designated by the SSE and the HKEx and the Company's website. The Company continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure of the Company, and make a pre-disclosure confidentiality. The Company also ensures that all shareholders have fair and equitable access to information relating to the Company.

II. SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

1. Separation of business: the Company operates with an extensive business scope that is independent from its controlling shareholder.
2. Human resources: The Company maintains independency in areas of staffing, personnel and payroll management. The General Manager, Deputy General Manager, Company Secretary, Financial Controller, and other senior executives of the Company are remunerated by the Company.

Corporate Governance

II. SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER *(Continued)*

3. Assets: The Group is equipped with an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. The Company has entered into the Trademark Licensing Agreement and Supplemental Trademark Licensing Agreement with GPLH in relation to the use of trademarks at a consideration. In addition, the Company owns 5 registered trademarks, the registrations of which are still valid.
4. Organization: The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments are operating independently and autonomously. Further, they possess independent decision-making mechanisms and complete production units. No supervisory or reporting relationships exist in the functional departments of the controlling shareholder of the Company.
5. Finance: The Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS

1. The General Scheme of Establishment of the Internal Control Systems

Based on the characteristics of the Group's business, the Company formulated the "Implementation Work Plan for Regulation of Internal Control" (《内部控制規範實施工作方案》) and established a leaders' group and a working group for the regulation of internal control, which would direct and coordinate the implementation work for the regulation of internal control of the Group.

The work plan principally covers such areas as the promotion and training for the regulation of internal control in the Group, the design of the general framework for internal control, and the assistance in overall review and evaluation of the internal control system in two pilot enterprises by an externally appointed professional intermediary institution and the modification and optimization of the internal control system according to its professional recommendation and the enterprise's practical operation, the establishment of the general framework for internal control based on the experience of the pilot enterprises and the practical operation of the non-pilot enterprises of the Group and the Company, the review and examination of our important business processes to identify inadequacies and make improvements in accordance with the requirement of Basic Norms of Corporate Internal Control and relevant guidelines, and the review and enhancement of the internal control system of the group.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS

(Continued)

2. The Work Related to the Corporate Governance and Internal Control Commenced by the Company during and after the Reporting Period includes:

- (1) The Company performed review on its internal control and fulfillment of social obligations for the year 2010 pursuant to the requirements of the “Notice on How to Successfully Prepare the 2010 Annual Report by Listed Companies” and “No. 3 Memorandum on the Preparation and Review of the Internal Control Report and Social Responsibility Report for 2010 Annual Reports of Listed Companies” issued by the SSE. Accordingly, the Company prepared the “Self-assessment Report on Internal Control for 2010” from the Board of the Company and the “Report on Fulfillment of Social Responsibilities for 2010”, both of which were disclosed after being considered and duly passed at the Board meeting of the Company on 25 March 2011.
- (2) During the Reporting Period, the Audit Department together with the professional intermediary institution appointed by the Company conducted a number of concentrated tours of lectures, training and counseling on various issues such as regulation of internal control and its implementation method and risk management for the Group. The professional intermediary institution appointed by the Company provided consultation services for the establishment of the internal control system of the two pilot enterprises. It provided recommendation on and assistance in the design of the general framework for the internal control system. Having reviewed the key business processes, it also discovered the main risks and existing weaknesses of the internal control system and identified the critical point and measures for control. The pilot enterprises modified, enhanced and optimized their relevant internal control systems based on the recommendations of the intermediary institution and its practical operation. Meanwhile, the Company, based on the pilot enterprises’ experience in the implementation of internal control, arranged its non-pilot subsidiaries to conduct comprehensive reviews and examinations on their respective internal control systems. Steps have been taken to rectify the identified weaknesses of the internal control systems and to enhance and optimize the relevant internal control systems. During the fourth quarter, the Company arranged its subsidiaries to commence the initial evaluation of internal control systems, and rectified the deficiencies found in the evaluation. During the period from December 2011 to February 2012, the Group conducted its annual evaluation of the internal control system according to the “Evaluation Work Plan for Internal Control” (《內部控制評價工作方案》).
- (3) The Company made amendments to the relevant provisions of the “Articles of Association”, and formulated “The Working Rules for Secretary of the Board of Guangzhou Pharmaceutical Company Limited”, which confirmed the responsibilities and permissions of the secretary of the Board. Such amendments were considered and duly passed at the Board meeting of the Company held on 25 March 2011, the Board meeting of the Company on 21 June 2011 and the 2010 annual general meeting held on 21 June 2011 respectively.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS (Continued)

2. The Work Related to the Corporate Governance and Internal Control Commenced by the Company during and after the Reporting Period includes: (Continued)

- (4) Pursuant to the requirements under the Notice on Forwarding the “Requirements on Establishment of Insiders Registration and Management System by Listed Companies” (《關於轉發〈關於上市公司建立內幕信息知情人登記管理制度的規定〉的通知》) (Guangdong Zheng Jian [2011] No. 185) issued by Guangdong Regulatory Bureau of the China Securities Regulatory Commission (“Guangdong Securities Regulatory Bureau”), relevant provisions of the “Insiders Registration System” of the Company have been revised. The aforesaid revision of the system was passed by a written resolution of the fifth session of the Board of the Company on 2 December 2011.
- (5) Subsequent to the Reporting Period, in order to further optimize its relevant internal systems, the Company formulated “The Working Rules for Financial Controller of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司財務總監工作細則》), “Management System on the Authorization of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司權限管理制度》), “Management System on the Guarantees of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司擔保管理制度》), “Management System on the External Investments of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司對外投資管理制度》), “Strategic Management System of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司戰略管理制度》), “Management on the Evaluation of Internal Control of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司內部控制評價管理辦法》) and “Management System on Loan Facilities of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司債務融資管理制度》), and revised the “Management System on Comprehensive Budgeting of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司全面預算管理制度》). The aforesaid systems were passed by a written resolution of the fifth session of the Board of the Company on 19 January 2012.

3. The Establishment of Department for Internal Control, Inspection and Supervision

The Audit Committee under the Board is responsible for the review of internal control of the Company and supervision of the related effective control measures. The Audit Department, which is established under the Audit Committee, performs inspection and supervision on the Company's internal control in terms of its soundness and effectiveness.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS (Continued)

4. The Progress for Self-assessment on Internal Supervision and Internal Control

During the Reporting Period, the Company formulated the "Evaluation Work Plan for Internal Control" based on the "Implementation Work Plan for Regulation of Internal Control", in which issues such as companies and business processes to be included in the evaluation, the evaluation procedures, human resources and the schedule were determined. Under the Evaluation Work Plan, the Company arranged to carry out its initial evaluation and annual evaluation for internal control, and formulated a rectification plan for the deficiencies identified in the internal control evaluation, according to which implementation is underway. At the same time, the Company requires its subsidiaries to regularly report to the Audit Department of the Company on the progress of implementation of the internal control evaluation. The Audit Department will provide appropriate guidelines and monitor the evaluation.

5. The Board's Arrangement on the Work Regarding Internal Control

The Board reviews the assessment report of internal control and makes recommendations annually. Through the subordinate Audit Committee, the Board discusses on the enforcement and the existing problems on the Group's internal control with external and/or internal auditing units and makes recommendations annually. The Audit Committee organizes with the Audit Department for the inspection and review on the enforcement of the Group's internal control system regularly.

6. The Construction and the Operation of the Internal Control System Regarding Financial Report

The Company has designed a set of financial management policies after taking the Company's practical operation into account pursuant to the relevant requirements of, among the others, "Accounting Law" and "Corporate Accounting Standards", covering such areas as capital, fixed assets, inventories, budget and management of guarantees. The policies were effectively implemented during the Reporting Period. During and subsequent to the period of the year, after taking into the account of the changes in the Company's operation and the need to enhance the standard of the management, the Company formulated such systems as "The Working Rules for Financial Controller of Guangzhou Pharmaceutical Company Limited", "Management System on the Guarantees of Guangzhou Pharmaceutical Company Limited", "Management System on the Loan Facilities of Guangzhou Pharmaceutical Company Limited", "Management System on the Establishment of Accounting and Auditing Systems, Revision of Policies and Change in Accounting Estimates of Guangzhou Pharmaceutical Company Limited" (《廣州藥業股份有限公司會計核算制度制定、政策修訂及會計估計變更管理制度》) and "Management System on Taxation of Guangzhou Pharmaceutical Company Limited" (《廣州藥業股份有限公司稅務管理制度》), and revised such systems as "Management System on Comprehensive Budgeting of Guangzhou Pharmaceutical Company Limited", "Guidelines on the Budgeting of Guangzhou Pharmaceutical Company Limited" (《廣州藥業股份有限公司預算工作指引》) and "Management System on the Preparation of Financial Report of Guangzhou Pharmaceutical Company Limited" (《廣州藥業股份有限公司財務報告編報管理制度》), which regulate the accounting, auditing and financial management of the Company.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS (Continued)

7. Self-assessment Report on the Company's Internal Control and related Recommendations from the Auditing Firm

The Board of the Company performed a self-assessment on internal control for the Year 2011 and formulated the Self-assessment Report on Internal Control (full version is available on the website of the SSE) in accordance with the requirements of the Notice ([2011] No. 41) issued by CSRC on 31 December 2011 and the "Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies" and "No. 1 Memorandum on the Preparation, Review and Disclosure of the Internal Control Report for 2011 Annual Reports of Listed Companies" issued by the SSE. Upon self-assessment made, no major shortcoming in the design of internal control or its execution was found in the Company as at the end of the Reporting Period.

The recommendations from the audit firm: PricewaterhouseCoopers Zhong Tian CPAs Limited Company considered that, as at 31 December 2011, the Group has maintained effective internal control in its financial reporting in all major aspect, pursuant to "Guidelines for Internal Control Standards" and relevant regulations.

8. The Company has appointed PricewaterhouseCoopers Zhong Tian CPAs Limited Company to review and assess on the Group's internal control for the Year (full version is available on the website of the SSE).

IV. THE COMPANY PREPARED THE SOCIAL RESPONSIBILITY REPORT OF 2011 (FULL VERSION IS AVAILABLE ON THE WEBSITE OF THE SSE) IN ACCORDANCE WITH THE REQUIREMENTS OF "NOTICE ON HOW TO SUCCESSFULLY PREPARE THE 2011 ANNUAL REPORT BY LISTED COMPANY" ISSUED BY THE SSE.

V. THE ESTABLISHMENT OF THE COMPANY'S ACCOUNTABILITY SYSTEM FOR MATERIAL MISTAKES IN THE INFORMATION DISCLOSURE OF ANNUAL REPORTS

Any person, who is involved in information disclosure and causes any fault in the Company's information disclosure or any material impact or loss on the Company due to his or her breach of duty or breach of the system's requirements, would be held liable, where the breach is fully investigated, to the extent of the seriousness of breach in accordance with the requirements of the Company's "Information Disclosure Management Policy".

1. There were no material mistakes in the information disclosure of annual report during the Reporting Period.
2. There were no material missing and additional information during the Reporting Period.
3. There were no notice of amendment of the performance during the Reporting Period.

Summary of Shareholders' Meetings

During the Reporting Period, details of the general meeting convened by the Company are set out as follows:

Session and number of meeting	Meeting date	Newspapers for publication of the resolutions	Disclosure date
2010 Annual General Meeting	21 June 2011	Shanghai Securities News	22 June 2011

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Scope and Analysis of Operations

1. Business Scope

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.

2. Analysis of Operating Results

(1) Operations 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.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis of Operations (Continued)

2. Analysis of Operating Results (Continued)

(1) Operations review (Continued)

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

Item	2011 (RMB'000) (Audited)	2010 (RMB'000) (Audited)	Increase/ (Decrease) (YOY) (%)
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

Principal Operations	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of last year (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of last year (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of last year (Percentage point)
Overall operations	5,345,158	21.40	4,026,306	26.27	24.67	A decrease of 2.91 percentage points
Include: Manufacturing	2,534,760	15.82	1,402,836	22.90	44.66	A decrease of 3.19 percentage points
Trading	2,810,398	26.91	2,623,470	28.15	6.65	A decrease of 0.91 percentage point
Include: Pharmaceutical trading	2,049,750	20.15	1,871,803	21.26	8.68	A decrease of 0.84 percentage point
Other trading	760,648	49.59	751,667	49.27	1.18	An increase of 0.21 percentage point

Profit margin of principal operations = (Income from principal operations – Cost of principal operations) / Income from principal operations

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis of Operations (Continued)

2. Analysis of Operating Results (Continued)

(1) Operations review (Continued)

Geographical analysis of sales arising from the manufacturing operations and trading operations of the Group for 2011 is set out as follows:

Region	Income from principal operations (RMB'000)	Increase/ (Decrease) in income from principal operations over the corresponding period of last year (%)	Percentage in overall income from principal Operations (%)
Southern China	3,761,626	22.88	70.37
Eastern China	544,469	13.30	10.19
Northern China	363,120	26.76	6.79
North-Eastern China	104,059	42.03	1.95
South-Western China	240,009	(8.89)	4.49
North-Western China	105,574	13.74	1.98
Exports	226,301	55.67	4.23
Total	5,345,158	21.40	100.00

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis of Operations (Continued)

2. Analysis of Operating Results (Continued)

(2) 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” research and promotion, “Chinese Medicine in China” (中醫中藥中國行), and “Chain Cooperation among the Top 100 Enterprises” (百強連鎖合作) and “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 adapting 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 Cai Zhi Lin’s herbal slices. 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, improving 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 continued increase in the price of raw material packages and labor costs, which resulted in the rise of production cost.

In 2011, products such as Hua Tuo Zai Zao Wan, Xia Sang Ju Ke Li, Zhuang Yao Jiang 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.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis of Operations (Continued)

2. Analysis of Operating Results (Continued)

(2) The manufacturing operations (Continued)

An analysis of sales of major products for the manufacturing operations in 2011 is as follows:

Types of products	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of last year (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of last year (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of last year (Percentage point)
Heat clearing and anti-toxic medicine	327,288	15.59	188,896	18.35	42.28	A decrease of 1.35 percentage points
Diabetes medicine	518,255	4.79	221,396	16.93	57.28	A decrease of 4.43 percentage points
Cough and phlegm clearing medicine	336,872	17.93	172,752	21.98	48.72	A decrease of 1.70 percentage points
Arthritis medicine	349,282	34.39	186,467	51.23	46.61	A decrease of 5.94 percentage points
Gastric medicine	99,030	42.69	49,626	44.39	49.89	A decrease of 0.59 percentage point
Other products	904,033	13.58	583,698	18.35	35.43	A decrease of 2.60 percentage points

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

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

I. Business Scope and Analysis of Operations *(Continued)*

2. Analysis of Operating Results *(Continued)*

(2) The manufacturing operations *(Continued)*

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 of Chen Li Ji (PCT) in Russia, Australia, Canada, Japan, Korea, the PRC 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, of which Zhong Yi and 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. She Dan Chuan Bei Pi Pa Gao of 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 recognised as “Innovative Enterprise in Guangdong Province” by the Guangdong Science and Technology Department. The critical purification of CO₂ technology and the application and industrialisation of the technology in natural medicine, which was developed by Guangzhou Han Fang, was awarded the Guangdong Provincial First Prize in Technological Advancement. The study and industrialisation 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). The 2007 State Biological Medicine High Technology Industry Development Project “Chinese Compound New Medicine Kun Xian Jiao Nang Industrialisation 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 Wang Lao Ji, Jing Xiu Tang, Pan Gao Shou, 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.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

I. Business Scope and Analysis of Operations *(Continued)*

2. Analysis of Operating Results *(Continued)*

(2) The manufacturing operations *(Continued)*

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 recognised as New/High Enterprises in 2008. According to relevant national policies, validity period for New/High Enterprises is three years, subject to review before expiry. Currently, the seven enterprises as mentioned above have all passed the review of New/High Enterprises, of which the joint venture Wang Lao Ji, applied for the Key New/High Enterprises and was selected to be one of the Key New/High Enterprises of the State's Torch Plan of 2011 on 8 October 2011.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis of Operations (Continued)

2. Analysis of Operating Results (Continued)

(3) 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 consolidation 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 expertises. 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 centralised bulk medicine purchase and the development of a Chinese medicine GAP base. Of which, the Gejie farm established with Guangxi Guigang City Zhen Zhen Gejie Technology Company (廣西貴港市真真蛤蚧科技公司) and Zhaoqing Gouji base 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. 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 specialised in traditional Chinese medicines, one pharmacy named Ying Bang.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis of Operations (Continued)

3. Details of Operation and Results of the Company's Subordinated Enterprises for the year

Name of enterprises	Equity direct 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	51.00	44,688	1,248	1,248
Guangzhou Bai Di	98.48	1,590	6,367	6,367
Guangzhou Han Fang	97.04	102,587	801	801
Cai Zhi Lin	100.00	1,784,915	10,519	8,669
Import & Export Co., Ltd.	100.00	1,723,592	7,335	5,289
(2) Branch Company				
Ying Bang Branch Company	–	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
GP Corp. <i>(note b)</i>	50.00	15,798,247	202,320	134,622
Nuo Cheng <i>(note c)</i>	50.00	169,574	40,356	34,702

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis of Operations (Continued)

3. Details of Operation and Results of the Company's Subordinated Enterprises (Continued)

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.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

I. **Business Scope and Analysis of Operations** *(Continued)*

4. **Major customers and suppliers**

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB565,598,000 representing approximately 12.43% of the total purchases. The purchases from the largest supplier amounted to RMB140,923,000 representing 3.10% of the total purchases. Sales to the 5 largest customers amounted to RMB1,007,043,000 representing 18.84% of the total sales. Sales to the largest customer amounted to RMB351,602,000 representing 6.58% of the total sales of the Group.

To the knowledge of the Board, none of the directors, their associates or shareholders holding more than 5% of the Company's total issued share capital had any interest in any of the 5 largest suppliers or customers noted above.

II. **After carrying out new accounting standards for enterprises, there was no changes in accounting policies and accounting estimates of the Group.**

III. **Use of Proceeds from the Issue of A Shares**

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

IV. **Analysis of Financial Conditions**

During 2011, the tightening national monetary policy and the surging financing costs resulted in significant increase in accounts receivable in the Group and plunge in operating cash flows on one hand, and the increase financial costs on the other. In view of the constraints of funding, the Group actively explored internal resources, improved the transfer of internal financial resources, and minimised external loans, all of which saw satisfactory effects.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

IV. Analysis of Financial Conditions (Continued)

1. Financial conditions of the Group

Items	As at 31 December 2011 (RMB'000)	As at 31 December 2010 (RMB'000)	Change as compared with last year (%)
Total assets	4,851,266	4,477,892	8.34
Equity attributable to the shareholders of the Company	3,781,652	3,539,369	6.85
Operating profit	308,926	298,016	3.66
Net profit attributable to the shareholders of the Company	287,531	267,112	7.64
Net increase/(decrease) in cash and cash equivalents	(340,599)	28,962	(1,276.03)

2. 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.

3. 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).

4. 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% as compared with 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.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions *(Continued)*

5. Capital expenditure

The Group expects the capital expenditure for 2012 to amount to approximately RMB184 million (2011: RMB60 million), which will be mainly applied in the construction of factories and infrastructure, 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. 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%).

7. 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.

8. Main cash resources and applications

As at 31 December 2011, cash and cash equivalents of the Group amounted to RMB355,749,000 with an decrease of RMB340,599,000 as compared with the beginning of 2011. The net cash inflow derived from operating activities amounted to RMB-180,053,000, with a decrease of RMB253,271,000 as compared with 2010, mainly due to the increase in the Group's inventories and accounts receivables for the Reporting Period.

9. Contingent liabilities

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

10. Charge on the Group's assets

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

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

V. Changes in Operating Environment and National Macro Economic Policy and their Impact on the Company

2011 saw a year full of opportunities and challenges. Further implementation of the new medical reform, the plans which pool the effort in developing biological medicine industry from the State and various government departments, and pushing forward of Chinese medicine strategy created opportunities for the Group's future development. However, ever keener competition in the pharmaceutical market, ever changing competition, implementation of the new GMP standard, increasing raw material prices and wage costs, tightening monetary policy and increasing financing costs posed an impact on our operations to a certain extent.

VI. The 2011 financial report of the Group has been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and signed by Certified Public Accountants, who have both issued unqualified auditors' reports thereon.

VII. Prospects and Plans for 2012

2012 is the second year for 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, internationalisation 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 centralised 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.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VII. Prospects and Plans for 2012 *(Continued)*

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 based on marketing innovation and continue to focus 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 field, 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 allocate to increase the market shares of the products outside the province. Thirdly, the Group shall push forward our key construction work and optimize the advantageous products, potential products and brand products. Based on the continuous effort to make progress on the a 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 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, the Group will make full use of the competitive edges of our 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.

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VII. Prospects and Plans for 2012 *(Continued)*

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.
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 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.

Report of the Board of Directors

DAILY OPERATIONS OF THE BOARD OF DIRECTORS

I. Board Meetings

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
Written resolution of the Board	17 March 2011	Change of Authorized Representative	/	/
6 th meeting of the fifth session	25 March 2011	/	Shanghai Securities News	28 March 2011
7 th meeting of the fifth session	28 April 2011	/		29 April 2011
8 th meeting of the fifth session	21 June 2011	The Working Rules of the Secretary of the Board of Guangzhou Pharmaceutical Company Limited	/	/
9 th meeting of the fifth session	29 June 2011	/	Shanghai Securities News	1 July 2011
10 th meeting of the fifth session	26 August 2011	Interim report of the Company for the year 2011; Interim financial report of the Company for the year 2011	/	/
11 st meeting of the fifth session	28 October 2011	The third quarterly report of the Company for the year 2011; The Deficiencies in Internal Control Evaluation Criteria of the Guangzhou Pharmaceutical Company Limited	/	/
Written resolution of the fifth session	2 December 2011	/	Shanghai Securities News, Securities Time	5 December 2011

Report of the Board of Directors

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

II. The Progress of Execution by the Directors in respect of the Resolutions Passed at General Shareholders' Meetings

1. Distribution of 2010 final dividend

Pursuant to the resolutions on financial accounts approval and dividend declaration passed at the 2010 annual general meeting held on 21 June 2011, 2010 final dividend of RMB0.50 (including tax) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2010.

The final dividend of RMB0.05 (including tax) per share for 2010 was paid to the Company's H-share shareholders whose names appeared on the register of the Company as at 20 May 2011 on 12 August 2011.

According to the announcement for 2010 final dividend published in Shanghai Securities News and Securities Time in the PRC on 11 July 2011, the registration date for A shares was 14 July 2011, the ex-dividend date was 15 July 2011 and the dividend payment date was 12 August 2011.

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

Profits 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 yuan. Balance of the undistributed profit of RMB1,091,905,270.13 will carry forward to the 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.

Report of the Board of Directors

DAILY OPERATIONS OF THE BOARD OF DIRECTORS (Continued)

II. The Progress of Execution by the Directors in respect of the Resolutions Passed at General Shareholders' Meetings (Continued)

3. Profit distribution of the Company for the last three years:

Year	Amount of profit distribution in cash (including tax) (RMB'000)	Consolidated net profit of the bonus year (RMB'000)	Payout ratio (%)
2010	40,545	267,112	15.18
2009	40,545	210,989	19.22
2008	32,436	182,496	17.77
Total	113,526	660,597	17.19

III. Report of the Fulfillment of Responsibilities of the 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 CSRC and "Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies" issued by the SSE on 31 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 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 or newly appointing accountant of the Company for the Year;
- (4) making recommendations with respect to major events of the Company or reminding the management of relevant risks.

Report of the Board of Directors

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

III. Report of the Fulfillment of Responsibilities of the Audit Committee *(Continued)*

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 the SSE on 31 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 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.

Report of the Board of Directors

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

IV. Report of the Discharge of Duties of the Nomination and Remuneration Committee

During the Reporting Period, the Nomination and Remuneration 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 Committee.

On 16 February 2012, the Nomination and Remuneration Committee convened the first meeting for 2012. Examinations and approvals were made during the meeting regarding the disclosure of emoluments of the directors, supervisors and senior management in the 2011 Annual Report. The Committee believes the disclosure of emoluments of the directors, supervisors and senior management in the 2011 Annual Report was reasonable and complied with the relevant assessment requirements of the Board of directors, the resolutions of Shareholders' Meetings and their respective posts. At the same time, the amount of emoluments of the directors, supervisors and senior management for 2012 was considered and approved for submission to the Board meeting and general shareholders' meeting for consideration.

V. Report of the Discharge of Duties of Responsibilities of the Budget Committee

During the Reporting Period, the Budget 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 Committee.

On 16 February 2012, the Budget Committee convened the first meeting for 2012 and the 2012 operation targets and budget bill, 2012 budgeting plan was examined and passed during the meeting.

VI. The Establishment and Enhancement of the Management System Regarding the Users of External Information of the Company

The Company had formulated the Management System Regarding the Users of External Information in 2010, the above system was put into force to strictly regulate the external disclosure of information by the Company and the use of external information on the Company, prevent information from leaking out and procure fair disclosure of information.

During the Reporting Period, the Company did not violate any requirements of the system.

Report of the Board of Directors

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

VII. Statement of the Board on Responsibilities for Internal Control

The objectives for internal control of the Company are to reasonably ensure that the operation and management of the Company are legal and in compliance with the law and regulations, assets are secured, financial reports and related information are true and complete so as to enhance the operation efficiency and efficacy, and promote the launching of development strategies of the Company. The Board is responsible for the establishment, improvement and effective implementation of internal control. The Board is of the view that the Group has established a relatively complete internal control system according to the requirements of the relevant documents such as the "Basic Norms of Corporate Internal Control" after taking the practical operation into account. During the Reporting Period, the Group operated in accordance with the internal control system to avert operational risks and reasonably ensure the safety of assets and the truthfulness and completeness of the financial reports and related information. The internal control is subject to ongoing revision and improvement in line with the operation and development of the Group as well as the change of internal and external environment.

VIII. Implementation of Insider Information Management System

The Company had formulated the "Insiders Registration System" in 2010, at the same time, pursuant to the requirements of the "Notice on Forwarding Established Companies Listed on the Registration and Management System Insiders to the Provisions" issued by GDSRC. After being considered and duly passed at written resolution of the Board meeting of the Company on 2 December, the above system was put into force to further strengthen the management of insider information and insiders and preclude trading of shares of the Company based on any insider information.

Upon self-assessment made by the Company, there was no trading of shares of the Company by insiders based on any insider information before disclosure of material price sensitive information during the Reporting Period.

OTHER MATTERS

I. Accounts

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2011 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2011 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2011 are set out in the cash flow statement.

Report of the Board of Directors

OTHER MATTERS *(Continued)*

II. Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out in this annual report.

III. Reserves

Details of movements in the reserves of the Group during the Year are set out in this annual report.

IV. Distributable Reserves

The distributable reserves of the Group as at 31 December 2011 amounted to RMB1,172,995,000.00 calculated in accordance with the China Accounting Standards for Business Enterprises.

V. Fixed Assets

Details of the movements of fixed assets for the year are set out in this annual report.

VI. Connected Transactions

Details of Connected Transactions were set out in Major Events of this annual report.

VII. Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

VIII. Compliance with the Code on Corporate Governance Practices

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

Report of the Board of Directors

OTHER MATTERS (Continued)

IX. Tax Exemption

In light of the recent changes in the PRC tax regulations, the individual holders of H Shares whose names appeared on the H Share register of members of the Company (the "Individual H-Share Holders") are no longer exempted from the individual income tax payment pursuant to the Circular on the Questions Concerning Tax on the Profits Earned by Enterprises with Foreign Investment, Foreign Enterprises and Individual Foreigners from the Transfer of Stocks (Stock Rights) and on Dividend Income (Guo Shui Fa [1993] No.045) (《關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》(國稅發[1993]045號)) issued by the State Administration of Taxation. Therefore, for non-resident enterprise holders of H Shares, the Company will withhold the dividends payable to them and pay for and on their behalf the individual income tax and enterprise income tax at a tax rate of 10% or any other applicable percentage tax rate according to the relevant tax regulations.

X. Retirement Scheme

Details of the retirement scheme and amounts of contributions of the Group charged to the profit and loss account for the year are set out in this annual report respectively.

XI. Projects under Development and for Sale

During the Reporting Period, contributions from the investment properties of the Group accounted for more than 5% of the Group's operating profit before tax. Particulars of the more significant properties are listed as follows:

The lessor	Rental property	Amount involved of the rental property	Commencing date of leasing	Closing date of leasing	Gain from leasing (RMB'000)	Reference of determination of gains from leasing	Impact of gains from leasing on the Company	Whether the connected transaction	Connected relation
Chen Li Ji	Yin Zuo Plaza	The net amount of investment property as at 31 December 2011 was RMB4,319,000	1 January 2009	31 December 2013	19,548	Contract	5.84% of profit of the Group	No	N/A

XII. Bank Loans, Overdrafts and Other Loans

Details of the bank loans, overdrafts, and other liabilities of the Group as at 31 December 2011 are set out in this annual report. In comparison to 2010, there have been no material adverse changes in respect of the amounts of bank loans, short-term borrowings and total liabilities as at 31 December 2011.

Report of the Board of Directors

OTHER MATTERS *(Continued)*

XIII. Auditors

According to the amendments of the listing rules on HKEx, the mainland incorporated issuers listed in Hong Kong are permitted to adopt the PRC accounting standards for the preparation of their financial statements, and the mainland accounting firms approved by the PRC's Ministry of Finance and China Securities Regulatory Commission are permitted to adopt PRC auditing standards when providing auditing services to these issuers. Accordingly, as approved by the 2010 annual general meeting, the Company did not re-appointment of Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers as the auditor of the Company for the year 2011. PricewaterhouseCoopers Zhong Tian CPAS Limited Company was appointment as the auditor of the Company for the year 2011.

XIV. Changes in the Newspapers Designated by the Company for Information Disclosure

During the Reporting Period, Securities Times was designated by the Company for information disclosure.

On behalf of the Board
Yang Rongming
Chairman

Guangzhou, the PRC, 16 February 2012

Report of the Supervisory Committee

To all shareholders:

On behalf of the supervisory committee of the Company (the "Supervisory Committee"), I hereby report to you the duties performed by the Supervisory Committee during the year ended 31 December 2011 in accordance with the Company's Articles of Association.

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR

During the Reporting Period, four meetings were held. The detail is set out as below:

Session and number of meeting	Date of meeting	Resolutions	Newspapers for publication of information	Dates for publication
4 th meeting of the fifth session	25 March 2011	/	Shanghai Securities News	28 March 2011
5 th meeting of the fifth session	28 April 2011	First quarterly report of the Company for the year 2011	/	/
6 th meeting of the fifth session	26 August 2011	Interim report of the Company for the year 2011; Interim financial report of the Company for the year 2011; the written audit opinion on Interim report of the Company for the year 2011	/	/
7 th meeting of the fifth session	28 October 2011	Third quarterly report of the Company for the year 2011	/	/

Report of the Supervisory Committee

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

1. The Company's operations during the Reporting Period

During the Reporting Period, the Supervisory Committee has monitored the procedures for convening Board meetings and shareholders' meetings and the resolutions proposed to be considered thereat, as well as the execution by the Board of the resolutions passed at the shareholders' meetings and has no dissenting view on any reports and proposals submitted by the Board at shareholders' meetings. The Supervisory Committee considers that during the Reporting Period the operations conducted by the Company are in compliance with the Company Law, the Securities Law, the respective Listing Rules governing the securities exchanges in PRC and in Hong Kong, the Articles of Association and other relevant laws and regulations, and the Company has executed the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company and established a good internal management system. The Company's directors and senior management have not committed any acts in breach of the rules and regulations, the Articles of Association, nor have they engaged in any acts involving the infringement of the Company's interest or infringement of shareholder's interests.

2. The supervision of the Company's financial conditions

The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considers that the Company's financial statements are fairly presented, and the auditing and financial management are in line with the relevant regulations. The auditor issued their standard and unqualified auditor's reports upon auditing the accounts of the Group and the Company for the Year ended 31 December 2011, which reflect an objective, true and fair view of the financial status of the Company as at 31 December 2011 and the operations results of the Group for the Year then ended.

3. Use of proceeds raised from the issue of A shares

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

4. Purchases and sales of assets of the Company

During the Reporting Period, the considerations for purchases and sales of assets are reasonable and arrived at on an arm's length basis. There has been no insider dealings which would harm the interests of certain shareholders or cause loss of the Company's assets.

Report of the Supervisory Committee

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS *(Continued)*

5. Connected transactions

During the Reporting Period, the Company's connected transactions including:

- (1) Provision of guarantees by Guangzhou Bai Di, a subsidiary of the Company, to secure bank loans for Nuo Cheng;
- (2) The Company and Alliance BMP Limited provided additional capital to GP Corp., according to their respective percentage of shareholdings;

The Connected transactions above were arrived at on an arm's length basis and do not involve any actions which may adversely affect the interests of the Company and its shareholders.

6. Review of self-assessment report on internal control of the Company

The Supervisory Committee had reviewed the relevant materials regarding the self-assessment report on internal control pursuant to the requirements of the Notice ([2011] No.41) issued by CSRC and "Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies" and "No. 1 Memorandum on the Preparation and Review of the Internal Control Report and Social Responsibility Report for 2010 Annual Reports of Listed Companies" issued by the SSE on 31 December 2011, and expressed no dissenting views on the self-assessment report on internal control of the Board of the Company.

On behalf of the Supervisory Committee
Yang Xiuwei
Chairlady

Guangzhou, the PRC, 16 February 2012

Major Events

I. SIGNIFICANT LITIGATION OR ARBITRATION

The Group had no significant litigation or arbitration during the Reporting Period.

II. DURING THE REPORTING PERIOD THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS

1. It was approved by the Strategic Development and Investment Committee of the Company at its first meeting for 2011 that the Company increased its capital contribution to Golden Eagle Fund Management Co., Ltd. (the "Golden Eagle") according to the proportion of capital contribution for subscription of 30,000,000 shares at RMB1 each.

As at the end of the Report Period, the above transaction has been completed. The Company's current capital contribution to Golden Eagle amounted to RMB50,000,000, representing 20% equity interest therein.

2. It was approved at the 6th meeting of the fifth session of the Board that the Company and Alliance BMP Limited contributed additional capital of RMB150 million respectively to GP Corp. according to their respective percentage of shareholdings. The above capital increase was completed in July 2011.
3. It was approved by the Strategic Development and Investment Committee of the Company at its second meeting for 2011 that the Company, Cai Zhi Lin and Chen Li Ji, subsidiaries of the Company, jointly invested RMB1,100,000 to set up a joint venture, Guizhou Guangyao Chinese Medicine Development Co., Ltd. (貴州廣藥中藥材開發有限公司), with Guizhou Changhao Chinese Medicine Development Co., Ltd. (貴州昌昊中藥發展有限公司) and Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd. (廣州白雲山光華製藥股份有限公司). The registered capital of the newly established company is RMB2,000,000, in which Cai Zhi Lin and Chen Li Ji hold 40% and 30% of its interests respectively.
4. It was approved by the Strategic Development and Investment Committee of the Company at its first meeting for 2011 that the Company, Cai Zhi Lin, a subsidiary of the Company, invested RMB900,000 to set up a joint venture, Shandong Guangyao Chinese Medicine Development Co., Ltd. (山東廣藥中藥材開發有限公司), with Shandong Pingyi Fangyuan Pharmaceutical Co., Ltd. (山東平邑方圓藥業有限公司) and Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd. The registered capital of the newly established company is RMB2,000,000, in which Cai Zhi Lin holds 45% of its interests.

Major Events

II. DURING THE REPORTING PERIOD THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS (Continued)

5. Other connected transactions.

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
Baiyunshan	Fellow Ultimate holding company	Purchase of products	Medicine or Pharmaceutical products	Market price	107,555	2.36	cash
Ming Xing	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 Company	Fellow Parent company	Purchase of products	Medicine or Pharmaceutical products	Market price	79,046	1.74	cash
Guangzhou Baiyunshan Hutchison Qhampoa 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	

Major Events

II. DURING THE REPORTING PERIOD THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS (Continued)

5. Other connected transactions. (Continued)

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
Baiyunshan	Fellow Ultimate holding company	Sales of products	Medicine or Pharmaceutical products	Market price	36,960	0.69	cash
Ming Xing	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 Company.	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 Qhampoa 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

Major Events

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS (Continued)

5. Other connected transactions. (Continued)

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 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
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.

Major Events

- III. DURING THE REPORTING PERIOD, THE GROUP HAS NO NON-RECURRING CAPITAL PROVIDED TO/FROM CONNECTED PARTIES.
- IV. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR REAL ASSETS, DIRECT EXEMPTION OR REPAYMENT, ETC.
- V. MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Group did not hold on trust or sub-contract of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the Year.

Save as the aforementioned, the Company was not involved in other major contracts during the Reporting Period.

Major Events

VI. GUARANTEES

Guarantees provided to parties other than the Group's subsidiaries

Guaranteed	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	4 January 2011	9,848	Joint and several liability guarantee	1 year	no	yes
	6 July 2011	9,848	Joint and several liability guarantee	1 year	no	yes
	1 August 2011	9,848	Joint and several liability guarantee	1 year	no	yes
	2 August 2011	9,848	Joint and several liability guarantee	1 year	no	yes
	3 November 2011	9,848	Joint and several liability guarantee	1 year	no	yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						49,240
Balance of guarantees as at the end of the Reporting Period (RMB'000)						49,240

The Company's guarantees provided to its holding subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)	185,000
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 holding subsidiaries)

Total amount of guarantees provided (RMB'000)	174,240
Percentage of the net assets of the Group (%)	4.61
Including:	
Amount of guarantees provided to the Company's controlling shareholders, controlling shareholder and other 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 Group (RMB'000)	–
Total amount of the above three types of guarantees (RMB'000)	125,000

VII. DURING THE REPORTING PERIOD, THE COMPANY DOES NOT HAVE ANY ENTRUSTED INVESTMENT ACTIVITIES

Major Events

VIII. ENTRUSTED LOANS OF THE GROUP DURING THE REPORTING PERIOD

Borrower name	Loan amount (RMB'000)	Loan period	Loan Interest rates	Whether the loan overdue	Whether a connected transaction	Connection with the Company
Guangzhou Han Fang	30,000	1 year	5.90%	No	No	Holding subsidiary of the Company
Cai Zhi Lin	15,000	1 year	4.65%	No	No	Wholly-owned subsidiary of the Company
Cai Zhi Lin	90,000	1 year	5.68%	No	No	Wholly-owned subsidiary of the Company
Cai Zhi Lin	93,000	1 year	5.90%	No	No	Wholly-owned subsidiary of the Company
Total	228,000					

As at the date of 31 December 2011, the aggregate amount of entrusted loans provided by the Company to its subsidiaries were RMB228,000,000.

IX. AS AT 31 DECEMBER 2011, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS THAT WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB20,386,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB58,800,000.

X. DURING THE REPORTING PERIOD, THE GROUP HAS PAID AUDITOR'S REMUNERATION OF RMB1,010,000 AND RMB1,970,000 TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., AND PRICEWATERHOUSECOOPERS RESPECTIVELY. THE AMOUNT PAID TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., RMB1,010,000 WAS PAID FOR THE 2010 ANNUAL AUDIT. AN AMOUNT OF RMB1,970,000 PAID TO PRICEWATERHOUSECOOPERS WAS PAID FOR THE 2010 ANNUAL AUDIT. BOTH THE DOMESTIC AUDITORS AND INTERNATIONAL AUDITORS HAVE PROVIDED AUDIT SERVICES TO THE COMPANY FOR 13 YEARS.

THE GROUP HAS PAID AUDITOR'S REMUNERATION OF RMB0 TO PRICEWATERHOUSECOOPERS ZHONG TIAN CPAs LIMITED COMPANY FOR THE 2011 INTERIM REVIEW.

XI. DURING THE REPORTING PERIOD, NO INVESTIGATION, ADMINISTRATION PUNISHMENT OR PUBLIC REPRIMAND BY THE CSRC AND NO PUNISHMENT BY HKEX OR SSE WERE MADE AGAINST AND IMPOSED ON THE COMPANY, THE BOARD OR THE DIRECTORS.

XII. DURING THE REPORTING PERIOD, THE COMPANY WAS NOT IN THE SERIOUS CONTAMINATION COMPANY LIST PUBLISHED BY THE ENVIRONMENTAL PROTECTION AUTHORITY.

Major Events

XIII. INFORMATION ON THE COMPANY'S INTERESTS IN SHARES OF OTHER LISTED COMPANIES

1. Stock Investments

Number	Type of Stock	Stock Code	Stock name	Initial investment amount (RMB'000)	Number of shares held as at the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investment as at the end of the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of the SSE	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	1,007	32.20	(634)
2	A Share of the SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	2,121	67.80	(2,773)
	Other stock investments held as at the end of the Reporting Period			-	-	-	-	-
	Gain/(Loss) of stock investments sold as at the end of the Reporting Period			-	-	-	-	-
Total				5,511	280,356	3,128	100	(3,407)

2. Information on the Company's Interests in Shares of Other Listed Companies

Stock Code	Stock name	The initial investment amount (RMB'000)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	439	-	1,484	6	(142)	Available-for-sale financial assets	Acquisition
601818	China Everbright Bank Company Limited	10,725	approx. 0.02	17,424	572	(4,901)	Available-for-sale financial assets	Acquisition

Major Events

XIII. INFORMATION ON THE COMPANY'S INTERESTS IN SHARES OF OTHER LISTED COMPANIES (Continued)

3. Information on the Company's Interests in Non-Listed Financial Institutions

Name	Initial Investment amount (RMB'000)	Number of shares held (share)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund Management Co., Ltd.	50,000	-	20.00	37,410	231	-	Long-term equity investment	Acquisition

XIV MAJOR ASSET 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 GPLH, 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 will continue 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, GPLH 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.

XV. INDEX TO THE INFORMATION DISCLOSED

Disclosed information	Newspaper	Date	Website and the link
A Share unusual fluctuations in price and volume	Page B32 of Shanghai Securities News	6 January 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of Guangzhou Pharmaceutical Company Limited	Page B32 of Shanghai Securities News	4 March 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	9 March 2011	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Change of Authorized Representative	/	18 March 2011	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XV. INDEX TO THE INFORMATION DISCLOSED (Continued)

Disclosed information	Newspaper	Date	Website and the link
Summary of 2010 annual report, Announcement of resolution passed at the 6 th meeting of the fifth session of the Board and Announcement of resolutions passed at the 4 th meeting of the fifth session of the Supervisory Committee	Page 159 to 160 of Shanghai Securities News	28 March 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	13 April 2011	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
2011 first quarterly report, Announcement of resolutions passed at the 7 th meeting of the fifth session of the Board	Page B128 of Shanghai Securities News	29 April 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Notice of the 2010 annual general meeting	Page B36 of Shanghai Securities News	4 May 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of the resolutions passed at the 2010 annual general meeting	Page B25 of Shanghai Securities News	22 June 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of Guangzhou Pharmaceutical Company Limited	Page B30 of Shanghai Securities News	29 June 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 9 th meeting of the fifth session of the Board and Change of joint company secretary	Page B16 of Shanghai Securities News	1 July 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of payment of 2010 dividend for A shares	Page 18 of Shanghai Securities News; Page D7 of Securities News	11 July 2011	http://www.sse.com.cn http://www.equitynet.com.hk/0874/
Further announcement in relation to the distribution of 2010 H share final dividend	/	15 July 2011	http://www.hkex.com.hk
Summary of 2011 Interim Report	Page 216 of Shanghai Securities News; Securities News	17 August 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XV. INDEX TO THE INFORMATION DISCLOSED (Continued)

Disclosed information	Newspaper	Date	Website and the link
2011 Third Quarterly Report of Guangzhou Pharmaceutical	Page 45 of Shanghai Securities News; Page D33 of Securities News	31 October 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of major issues-cum-suspension and Announcement of Bulletin Suspension of Trading in H-shares	Page B22 of Shanghai Securities News; Page D15 of Securities News	8 November 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of progress on significant asset restructuring and Overseas regulatory announcement	Page 21 of Shanghai Securities News; Page C9 of Securities News	14 November 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of progress on significant asset restructuring and Overseas regulatory announcement	Page 29 of Shanghai Securities News; Page C8 of Securities News	21 November 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of progress on significant asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C 11 of Securities News	28 November 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Written Resolutions of the fifth session of the Board and Announcement on extend the period of suspension and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page B10 of Securities News	5 December 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of progress on significant asset restructuring and Overseas regulatory announcement	Page 18 of Shanghai Securities News; Page A11 of Securities News	12 December 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of progress on significant asset restructuring and Overseas regulatory announcement	Page 10 of Shanghai Securities News; Page C8 of Securities News	19 December 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of progress on significant asset restructuring and Overseas regulatory announcement	Page 18 of Shanghai Securities News; Page C12 of Securities News	26 December 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Independent auditor's report



普华永道

(English Translation for Reference Only)

Auditor's Report

PwC ZT Shen Zi (2012) No. 10029
(Page 1 of 2)

To the Shareholders of Guangzhou Pharmaceutical Company Limited,

We have audited the accompanying financial statements of Guangzhou Pharmaceutical Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended and the notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

普华永道中天会计师事务所有限公司

PricewaterhouseCoopers Zhong Tian CPAs Limited Company, 11/F PricewaterhouseCoopers Center
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Independent auditor's report



普华永道

PwC ZT Shen Zi (2012) No. 10029
(Page 2 of 2)

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

16 February 2012

Consolidated balance sheet

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

ITEMS	Note	31 December 2011	31 December 2010
ASSETS			
Current assets			
Cash at bank and on hand	5(1)	384,135,738.08	707,396,997.50
Financial assets held for trading	5(2)	3,127,692.50	11,669,292.02
Notes receivable	5(3)	430,388,075.25	200,470,880.49
Accounts receivable	5(4)	446,596,366.96	331,182,885.42
Advances to suppliers	5(6)	132,518,184.98	126,959,980.73
Interest receivable		–	–
Dividends receivable		–	–
Other receivables	5(5)	54,056,817.63	43,140,903.17
Inventories	5(7)	859,005,842.50	755,055,590.28
Current portion of non-current assets		–	–
Other current assets	5(8)	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	5(9)	18,907,856.64	25,615,245.16
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(11)	1,255,088,628.89	952,492,546.46
Investment properties	5(12)	102,290,186.93	108,517,274.59
Fixed assets	5(13)	1,000,021,241.01	1,040,084,682.18
Construction in progress	5(14)	20,369,955.46	27,452,013.77
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(15)	95,138,045.81	96,963,070.09
Development costs	5(16)	792,251.69	996,251.69
Goodwill		–	–
Long-term prepaid expenses	5(17)	7,944,670.09	6,967,625.69
Deferred tax assets	5(18)	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

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

ITEMS	Note	31 December 2011	31 December 2010
Current liabilities			
Short-term borrowings	5(20)	144,928,849.42	38,867,878.83
Financial liabilities held for trading		–	–
Notes payable	5(21)	5,432,012.71	76,326,446.93
Accounts payable	5(22)	350,249,598.28	264,375,227.56
Advances from customers	5(23)	146,931,794.49	99,011,229.83
Employee benefits payable	5(24)	64,167,157.18	61,258,810.66
Taxes payable	5(25)	37,951,281.66	46,223,852.41
Interest payable		–	–
Dividends payable	5(26)	136,440.45	113,739.69
Other payables	5(27)	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	5(28)	4,423,405.56	4,423,405.56
Payables for specific projects		–	–
Provisions	5(29)	–	14,396,857.57
Deferred tax liabilities	5(18)	3,802,712.90	5,822,215.05
Other non-current liabilities	5(30)	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

Consolidated balance sheet

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

ITEMS	Note	31 December 2011	31 December 2010
Shareholders' equity			
Share capital	5(31)	810,900,000.00	810,900,000.00
Capital surplus	5(32)	1,148,016,718.97	1,152,720,122.24
Less: Treasury share		–	–
Surplus reserve	5(33)	602,895,675.46	578,042,160.61
Undistributed profits	5(34)	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	5(35)	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

The accompanying notes form an integral part of these financial statements.

Legal
representative:
Yang Rongming

Person in charge of
accounting function:
Chen Binghua

Person in charge of
accounting department:
Chen Binghua

Consolidated income statement

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Year ended 31 December

ITEMS	Note	2011	2010
1. Revenue	5(36)	5,439,611,618.46	4,486,067,328.63
Less: Cost of sales	5(36)	4,042,751,834.94	3,205,808,556.91
Taxes and surcharges	5(37)	44,042,757.85	30,169,381.89
Selling and distribution expenses	5(38)	710,833,473.66	617,315,402.02
General and administrative expenses	5(39)	480,531,999.72	457,407,874.92
Financial expenses	5(40)	1,853,078.95	(2,196,399.33)
Asset impairment losses	5(41)	916,864.96	(3,763,751.23)
Add: Profit arising from changes in fair value	5(42)	(3,541,599.52)	1,337,342.10
Investment income	5(43)	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	5(44)	33,370,701.19	38,591,057.45
Less: Non-operating expenses	5(45)	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	5(46)	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	5(47)	0.355	0.329
– Diluted earnings per share	5(47)	0.355	0.329
6. Other comprehensive income	5(48)	(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

The accompanying notes form an integral part of these financial statements.

Legal representative:
Yang Rongming

Person in charge of accounting function:
Chen Binghua

Person in charge of accounting department:
Chen Binghua

Consolidated cash flow statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

ITEMS	Note	Year ended 31 December	
		2011	2010
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		5,909,882,616.07	5,081,705,401.90
Refund of taxes and surcharges		31,845,310.05	25,859,778.69
Cash received relating to other operating activities	5(49)(a)	116,722,037.36	139,804,888.26
Sub-total of cash inflows		6,058,449,963.48	5,247,370,068.85
Cash paid for goods and services		4,492,360,143.46	3,656,222,478.80
Cash paid to and on behalf of employees		820,408,562.80	718,374,060.32
Payments of taxes and surcharges		415,494,210.77	337,359,781.59
Cash paid relating to other operating activities	5(49)(b)	510,239,871.19	462,195,389.48
Sub-total of cash outflows		6,238,502,788.22	5,174,151,710.19
Net cash flows from operating activities	5(50)(a)	(180,052,824.74)	73,218,358.66
2. Cash flows from investing activities			
Cash received from disposal of investments		5,000,000.00	34,513,940.00
Net cash received from disposal of subsidiaries		–	1,222,384.81
Cash received from returns on investments		30,609,565.40	47,489,985.55
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		752,598.00	14,375,632.48
Cash received relating to other investing activities	5(49)(c)	13,068,178.14	28,918,251.21
Sub-total of cash inflows		49,430,341.54	126,520,194.05
Cash paid to acquire fixed assets, intangible assets and other long-term assets		58,862,504.67	83,203,453.81
Cash paid to acquire investments		180,000,000.00	6,769,051.50
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(49)(d)	31,094,387.83	12,409,406.55
Sub-total of cash outflows		269,956,892.50	102,381,911.86
Net cash flows from investing activities		(220,526,550.96)	24,138,282.19

Consolidated cash flow statement

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Year ended 31 December

ITEMS	Note	2011	2010
3. Cash flows from financing activities			
Cash received from capital contributions		900,000.00	–
Including: Cash received from capital contributions by minority shareholders of subsidiaries		900,000.00	–
Cash received from borrowings		177,808,254.51	38,867,878.83
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		178,708,254.51	38,867,878.83
Cash repayments of borrowings		71,747,283.92	63,369,822.21
Cash payments for interest expenses and distribution of dividends or profits		46,701,652.88	43,866,831.14
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		2,157,116.74	1,775,502.41
Cash payments relating to other financing activities		–	–
Sub-total of cash outflows		118,448,936.80	107,236,653.35
Net cash flows from financing activities		60,259,317.71	(68,368,774.52)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(278,572.02)	(26,169.67)
5. Net (decrease)/increase in cash and cash equivalents			
Add: Cash and cash equivalents at beginning of year	5(50)(a)	(340,598,630.01)	28,961,696.66
	5(50)(a)	696,347,134.34	667,385,437.68
6. Cash and cash equivalent at end of period	5(50)(b)	355,748,504.33	696,347,134.34

The accompanying notes form an integral part of these financial statements.

Legal representative:
Yang Rongming

Person in charge of accounting function:
Chen Binghua

Person in charge of accounting department:
Chen Binghua

Consolidated statement of changes in equity

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

	Attributable to shareholders of the Company							Total shareholders' equity	
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Others		Minority interest
1. Balance at 31 December 2010	810,900,000.00	1,152,720,122.24	-	578,042,160.61	-	997,707,102.24	-	102,170,784.50	3,641,540,169.59
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2011	810,900,000.00	1,152,720,122.24	-	578,042,160.61	-	997,707,102.24	-	102,170,784.50	3,641,540,169.59
3. Movements for 2011	-	(4,703,403.27)	-	24,853,514.85	-	222,132,465.22	-	11,349,271.18	253,631,847.98
(1) Net profit	-	-	-	-	-	287,530,980.07	-	12,465,878.54	299,996,858.61
(2) Other comprehensive income	-	(5,203,219.43)	-	-	-	-	-	(3,526.95)	(5,206,746.38)
Subtotal of items (1) and (2)	-	(5,203,219.43)	-	-	-	287,530,980.07	-	12,462,351.59	294,790,112.23
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	900,000.00	900,000.00
Capital contribution by the shareholders	-	-	-	-	-	-	-	900,000.00	900,000.00
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	24,853,514.85	-	(65,398,514.85)	-	(2,179,685.81)	(42,724,685.81)
Appropriation to surplus reserves	-	-	-	24,853,514.85	-	(24,853,514.85)	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(40,545,000.00)	-	(2,179,685.81)	(42,724,685.81)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(6) Others	-	499,816.16	-	-	-	-	-	166,605.40	666,421.56
4. Balance at 31 December 2011	810,900,000.00	1,148,016,718.97	-	602,895,675.46	-	1,219,839,567.46	-	113,520,055.68	3,895,172,017.57

Consolidated statement of changes in equity

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

	Attributable to shareholders of the Company								Total shareholders' equity
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Others	Minority interest	
1. Balance at 31 December 2009	810,900,000.00	1,144,082,619.28	-	556,609,177.06	-	792,594,656.13	-	97,389,005.67	3,401,575,458.14
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2010	810,900,000.00	1,144,082,619.28	-	556,609,177.06	-	792,594,656.13	-	97,389,005.67	3,401,575,458.14
3. Movements for 2010	-	8,637,502.96	-	21,432,983.55	-	205,112,446.11	-	4,781,778.83	239,964,711.45
(1) Net profit	-	-	-	-	-	267,111,879.76	-	6,919,590.78	274,031,470.54
(2) Other comprehensive income	-	9,083,804.35	-	-	-	-	-	(20,472.80)	9,063,331.55
Subtotal of items (1) and (2)	-	9,083,804.35	-	-	-	267,111,879.76	-	6,899,117.98	283,094,802.09
(3) Capital contribution and withdrawal by shareholders	-	(1,078,722.52)	-	(21,450.10)	-	-	-	(521,277.46)	(1,621,450.08)
Capital contribution by the shareholders	-	-	-	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	(1,078,722.52)	-	(21,450.10)	-	-	-	(521,277.46)	(1,621,450.08)
(4) Profit distribution	-	-	-	21,454,433.65	-	(61,999,433.65)	-	(1,824,647.64)	(42,369,647.64)
Appropriation to surplus reserves	-	-	-	21,454,433.65	-	(21,454,433.65)	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(40,545,000.00)	-	(1,824,647.64)	(42,369,647.64)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(6) Others	-	632,421.13	-	-	-	-	-	228,585.95	861,007.08
4. Balance at 31 December 2010	810,900,000.00	1,152,720,122.24	-	578,042,160.61	-	997,707,102.24	-	102,170,784.50	3,641,540,169.59

The accompanying notes form an integral part of these financial statements.

Legal representative:
Yang Rongming

Person in charge of accounting function:
Chen Binghua

Person in charge of accounting department:
Chen Binghua

Balance sheet

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

ITEMS	Note	31 December 2011	31 December 2010
ASSETS			
Current assets			
Cash at bank and on hand		107,691,016.27	213,007,698.60
Financial assets held for trading	15(1)	3,127,692.50	6,669,292.02
Notes receivable		–	5,609,282.66
Accounts receivable	15(2)	3,306,347.93	9,733,387.79
Advances to suppliers		–	–
Interest receivable		–	–
Dividends receivable		134,099,380.47	73,448,099.44
Other receivables	15(3)	488,959,386.91	436,817,367.74
Inventories		290,740.04	132,488.56
Entrusted loan	15(5)	228,000,000.00	233,000,000.00
Current portion of non-current assets		–	–
Other current assets		–	–
Total current assets		965,474,564.12	978,417,616.81
Non-current assets			
Available-for-sale financial assets	15(4)	17,424,000.00	23,958,000.00
Long-term receivables		–	–
Long-term equity investments	15(6)	2,430,766,919.98	2,145,413,498.40
Investment properties	15(7)	36,121,032.39	37,463,208.95
Fixed assets	15(8)	14,189,764.08	14,569,977.14
Construction in progress		–	–
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		–	–
Development costs		–	–
Goodwill		–	–
Long-term prepaid expenses		–	–
Deferred tax assets		3,204,177.31	1,777,407.75
Other non-current assets		–	–
Total non-current assets		2,501,705,893.76	2,223,182,092.24
TOTAL ASSETS		3,467,180,457.88	3,201,599,709.05

Balance sheet

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

ITEMS	Note	31 December 2011	31 December 2010
Current liabilities			
Short-term borrowings	15(11)	–	30,000,000.00
Financial liabilities held for trading		–	–
Notes payable		–	–
Accounts payable	15(10)	361,917.10	511,104.98
Advances from customers		31,189.69	56,508.19
Employee benefits payable		1,783,493.18	3,566,497.59
Taxes payable		2,558,098.84	5,851,655.08
Interest payable		–	–
Dividends payable		(596.91)	(728.60)
Other payables		111,016,824.41	11,131,124.40
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		115,750,926.31	51,116,161.64
Non-current liabilities			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		–	–
Payables for specific projects		–	–
Provisions	15(12)	–	73,633.45
Deferred tax liabilities		3,135,142.17	5,044,811.04
Other non-current liabilities		–	–
Total non-current liabilities		3,135,142.17	5,118,444.49
Total liabilities		118,886,068.48	56,234,606.13

Balance sheet

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

ITEMS	Note	31 December 2011	31 December 2010
Shareholders' equity			
Share capital		810,900,000.00	810,900,000.00
Capital surplus		1,094,637,907.64	1,099,698,769.68
Less: Treasury share		-	-
Surplus reserve		269,761,211.63	244,907,696.78
Undistributed profits		1,172,995,270.13	989,858,636.46
Difference on translation of foreign currency financial statements		-	-
Total shareholders' equity		3,348,294,389.40	3,145,365,102.92
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		3,467,180,457.88	3,201,599,709.05

The accompanying notes form an integral part of these financial statements.

Legal
representative:
Yang Rongming

Person in charge of
accounting function:
Chen Binghua

Person in charge of
accounting department:
Chen Binghua

Income statement

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Year ended 31 December

ITEMS	Note	2011	2010
1. Revenue	15(13)	54,315,541.30	684,104,004.58
Less: Cost of sales	15(13)	14,016,691.88	633,572,975.42
Taxes and surcharges		3,199,534.03	2,981,157.84
Selling and distribution expenses		263,793.99	6,441,821.79
General and administrative expenses		30,811,355.68	30,267,277.40
Financial expenses	15(14)	1,896,461.74	(1,931,561.07)
Asset impairment loss	15(17)	(1,253,383.47)	(690,599.78)
Add: Profit arising from changes in fair value	15(15)	(3,541,599.52)	1,337,342.10
Investment income	15(16)	249,104,865.02	205,721,577.12
Including: Share of profit of associates and jointly controlled entities	15(16)(c)	135,027,315.32	105,723,007.91
2. Operating profit		250,944,352.95	220,521,852.20
Add: Non-operating income		1,760,576.77	537,877.20
Less: Non-operating expenses		449,995.84	611,475.90
Including: Losses on disposal of non-current assets		9,108.11	28,139.78
3. Total profit		252,254,933.88	220,448,253.50
Less: Income tax expenses	15(18)	3,719,785.36	5,903,917.00
4. Net profit		248,535,148.52	214,544,336.50
5. Earnings per share			
– Basic earnings per share			
– Diluted earnings per share			
6. Other comprehensive income		(5,060,862.04)	9,890,227.94
7. Total comprehensive income		243,474,286.48	224,434,564.44

The accompanying notes form an integral part of these financial statements.

Legal representative:
Yang Rongming

Person in charge of accounting function:
Chen Binghua

Person in charge of accounting department:
Chen Binghua

Cash flow statement

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

ITEMS	Note	Year ended 31 December	
		2011	2010
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		33,024,845.22	774,986,986.86
Refund of taxes and surcharges		491,181.48	590,576.94
Cash received relating to other operating Activities		25,396,983.35	30,034,410.97
Sub-total of cash inflows		58,913,010.05	805,611,974.77
Cash paid for goods and services		21,149,465.00	720,533,452.25
Cash paid to and on behalf of employees		13,838,162.85	19,434,448.95
Payments of taxes and surcharges		12,599,413.62	16,994,102.10
Cash paid relating to other operating activities		19,387,121.75	21,008,992.23
Sub-total of cash outflows		66,974,163.22	777,970,995.53
Net cash flows from operating activities	15(19)	(8,061,153.17)	27,640,979.24
2. Cash flows from investing activities			
Cash received from disposal of investments		–	6,000,000.00
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		74,180,799.56	103,554,292.30
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		59,639.00	419,167.94
Cash received relating to other investing Activities		410,742,047.11	380,539,373.52
Sub-total of cash inflows		484,982,485.67	490,512,833.76
Cash paid to acquire fixed assets, intangible assets and other long-term assets		626,057.00	443,076.49
Cash paid to acquire investments		180,000,000.00	1,600,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities		427,290,778.18	516,895,684.09
Sub-total of cash outflows		607,916,835.18	518,938,760.58
Net cash flows from investing activities		(122,934,349.51)	(28,425,926.82)

Cash flow statement

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Year ended 31 December

ITEMS	Note	2011	2010
3. Cash flows from financing activities			
Cash received from capital contributions		-	-
Including: Cash received from capital contributions by minority shareholders of subsidiaries		-	-
Cash received from borrowings		-	30,000,000.00
Cash received relating to other financing Activities		110,000,000.00	-
Sub-total of cash inflows		110,000,000.00	30,000,000.00
Cash repayments of borrowings		30,000,000.00	-
Cash payments for interest expenses and distribution of dividends or profits		40,957,502.43	39,347,173.93
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		-	-
Cash payments relating to other financing Activities		13,328,305.52	-
Sub-total of cash outflows		84,285,807.95	39,347,173.93
Net cash flows from financing activities		25,714,192.05	(9,347,173.93)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(35,371.70)	(26,169.67)
5. Net (decrease)/increase in cash and cash equivalents	15(19)	(105,316,682.33)	(10,158,291.18)
Add: Cash and cash equivalents at beginning of year		213,007,698.60	223,165,989.78
6. Cash and cash equivalent at end of period		107,691,016.27	213,007,698.60

The accompanying notes form an integral part of these financial statements.

Legal representative:
Yang Rongming

Person in charge of accounting function:
Chen Binghua

Person in charge of accounting department:
Chen Binghua

Statement of changes in equity

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2010	810,900,000.00	1,099,698,769.68	-	244,907,696.78	989,858,636.46	3,145,365,102.92
Add: Changes in accounting policies	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-
2. Balance at 1 January 2011	810,900,000.00	1,099,698,769.68	-	244,907,696.78	989,858,636.46	3,145,365,102.92
3. Movements for 2011	-	(5,060,862.04)	-	24,853,514.85	183,136,633.67	202,929,286.48
(1) Net profit	-	-	-	-	248,535,148.52	248,535,148.52
(2) Other comprehensive income	-	(5,060,862.04)	-	-	-	(5,060,862.04)
Subtotal of items (1) and (2)	-	(5,060,862.04)	-	-	248,535,148.52	243,474,286.48
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	24,853,514.85	(65,398,514.85)	(40,545,000.00)
Appropriation to surplus reserves	-	-	-	24,853,514.85	(24,853,514.85)	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(40,545,000.00)	(40,545,000.00)
Others	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-
Others	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-
4. Balance at 31 December 2011	810,900,000.00	1,094,637,907.64	-	269,761,211.63	1,172,995,270.13	3,348,294,389.40

Statement of changes in equity

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2009	810,900,000.00	1,089,861,878.45	-	223,453,263.13	837,313,733.61	2,961,528,875.19
Add: Changes in accounting policies	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-
2. Balance at 1 January 2010	810,900,000.00	1,089,861,878.45	-	223,453,263.13	837,313,733.61	2,961,528,875.19
3. Movements for 2010	-	9,836,891.23	-	21,454,433.65	152,544,902.85	183,836,227.73
(1) Net profit	-	-	-	-	214,544,336.50	214,544,336.50
(2) Other comprehensive income	-	9,890,227.94	-	-	-	9,890,227.94
Subtotal of items (1) and (2)	-	9,890,227.94	-	-	214,544,336.50	224,434,564.44
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	21,454,433.65	(61,999,433.65)	(40,545,000.00)
Appropriation to surplus reserves	-	-	-	21,454,433.65	(21,454,433.65)	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(40,545,000.00)	(40,545,000.00)
Others	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-
Others	-	-	-	-	-	-
(6) Others	-	(53,336.71)	-	-	-	(53,336.71)
4. Balance at 31 December 2010	810,900,000.00	1,099,698,769.68	-	244,907,696.78	989,858,636.46	3,145,365,102.92

The accompanying notes form an integral part of these financial statements.

Legal
representative:
Yang Rongming

Person in charge of
accounting function:
Chen Binghua

Person in charge of
accounting department:
Chen Binghua

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 GENERAL INFORMATION

Approved by the Circular Ti Gai Sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Pharmaceutical Company Limited (the "Company") was founded by Guangzhou Pharmaceutical Holdings Limited ("GPHL"). The 8 Chinese Patent Medicine ("CPM") manufacturing companies and 3 pharmaceutical trading companies under GPHL were restructured and the stated-owned equity interest in the assets of these companies were injected in the Company. The Company obtained business license on 1 September 1997 and the registered number is 4401011101830.

Approved by the Circular Ti Gai Sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zheng Wei Fa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Company issued 210,990,000 shares listed in Hong Kong Stock Exchange (H shares) in October 1997. Approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed in Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar. and stock code is 600332.

The Company executed and completed the reform of shareholder structure in April 2006. Subsequent to the completion of the reform, the Company's total share capital was 810,900,000. The address of the Company's registered office and head quarter is 45 Sha Mian North Street, Liwan District, Guangzhou City.

The parent company as well as the ultimate holding company of the Company is GPHL.

The Company and its consolidated subsidiaries (together, the "Group") are principally engaged in the manufacture of CPM, the wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine.

The major CPM products of the Group include Xiao Ke Wan ("消渴丸"), Xia Sang Ju ("夏桑菊"), Wu Ji Bai Feng Wan ("烏雞白鳳丸"), Hua Tuo Zai Zao Wan ("華佗再造丸") and Mi Lian Chuan Bei Pi Pa Gao ("蜜煉川貝枇杷膏"), etc.

The Group's current structure mainly include 7 CPM manufacturing companies, 2 pharmaceutical research and development companies and 2 pharmaceutical trading companies.

These financial statements were approved for issue by the Board of Directors on 16 February 2012.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(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.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for 2011 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 31 Dec 2011 and the operating results, cash flows and other information for the Group and the Company in 2011.

(3) Accounting period

Accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (“RMB”).

(5) Accounting treatments for business combinations involving entities under and not under common control

(a) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(5) Accounting treatments for business combinations involving entities under and not under common control *(Continued)*

(b) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current year.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, come under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognised in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognised in profit or loss or capital surplus in the current year.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Financial Instruments

(a) Financial assets

(i) Classification

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

2) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

4) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial Instruments (Continued)

(a) Financial assets (Continued)

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognised, the cumulative gain or loss previously recognised directly in equity is recycled into profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Group shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

In the case of a significant or prolonged decline in the fair value of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed and recognised in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

(iv) The basis and measurement for the transfer of financial assets and the derecognition of financial assets

When the Group transfers financial assets, the financial assets should be derecognised when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognised if the Group substantially retains all the risks and rewards of ownership of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognised.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial Instruments (Continued)

(a) Financial assets (Continued)

(iv) *The basis and measurement for the transfer of financial assets and the derecognition of financial assets (Continued)*

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognised when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Group mainly comprise of other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortised cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortised costs using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised in profit or loss.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Financial Instruments *(Continued)*

(c) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Group.

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(a) Receivables that are individually significant and subject to separate provision

The criteria for individually significant receivables

The amount of accounts receivable are individually more than RMB1,000 thousand (including RMB1,000 thousand) and other receivables are individually more than RMB100 thousand (including RMB100 thousand).

Method of provision for bad debts of individually significant receivables

Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognised in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Receivables (Continued)

- (b) Receivables that are combined into certain groups and subject to provision by groups

Basis for determination of groups is as follow:

Group name	Criteria
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Group determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Notes receivable, other receivables, and long-term receivables which are not classified into Group 1 are subject to separate impairment assessment. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment assessment, no provision for bad debts shall be recognised.
Group 3	Other receivables due from related parties
Group 4	deposits and staff advances

Method for provision by groups are summarised as followed:

Group name	Method for provision
Group 1	Aging analysis method
Group 2	Specific identification
Group 3	No provisions are made
Group 4	No provisions are made

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Receivables *(Continued)*

- (b) Receivables that are combined into certain groups and subject to provision by groups *(Continued)*

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Ageing	Ratios for provision for bad debts
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

- (c) Receivables which are individually insignificant but subject to separate provision

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method can not reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

(11) Inventories

- (a) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

- (b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost is determined using the weighted average method. The cost of finished goods, commodity stocks and work in progress comprises raw materials, direct labour and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Inventories (Continued)

(c) **Basis for the determination of net realisable value and the method of provisions for impairment of inventories**

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) **Inventory system**

The Group adopts the perpetual inventory system.

(e) **Amortisation of low-value consumables and packaging materials**

Low-value consumables and packaging materials are expensed upon issuance.

(12) Long-term equity investments

(a) **Initial recognition**

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all entities over which the Company is able to control. Jointly controlled entities are the investees over which the Group is able to exercise joint control together with other venturers. Associates are all entities over which the Group has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted by using the equity method when preparing the consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using the equity method. Other long-term equity investments, which the Group does not have control, joint control or significant influence over the investee and which are not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Long-term equity investments *(Continued)*

(a) Initial recognition *(Continued)*

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted upwards accordingly.

(b) Subsequent measurement

Under the cost method of accounting, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

Under the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee when the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Group continues to recognise the investment losses and the provision. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group record directly in capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investee. The unrealized profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based which the investment gain or losses are recognised. The loss on the intra-group transaction amongst the Group and its investees, of which the nature is asset impairment, is recognised in full, and the related unrealized loss is not eliminated.

(c) Definition of control, joint control and significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts and warrants currently exercisable.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Long-term equity investments (Continued)

(c) Definition of control, joint control and significant influence over the investees (Continued)

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(d) Impairment of long-term equity investments

The carrying amount of long-term equity investments in subsidiaries, jointly controlled entities and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. For other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the excess of its carrying amount over the present value of future cash flows discounted at the prevailing market yield rate for similar financial assets shall be recognised as impairment loss and cannot be reversed once recognised.

(13) Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Group adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortised on a basis consistent with the amortisation policy which the Group adopts for intangible assets.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(13) Investment properties *(Continued)*

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortisation) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current year.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(14) Fixed assets

(a) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognised when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Fixed assets (Continued)

(a) Recognition, initial measurement and depreciation method of fixed assets (Continued)

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognised and all the other subsequent expenditures are recognised in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalisation is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

(b) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	15-50 years	1%~10%	1.80%~6.60%
Machinery and equipment	4-18 years	1%~10%	5%~24.75%
Motor vehicles	5-10 years	1%~10%	9%~19.80%
Electronic equipment	5-10 years	1%~10%	9%~19.80%
Office equipment	4-8 years	1%~10%	11.25%~24.75%
Decoration and fixtures	5 years	0%	20%

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Fixed assets *(Continued)*

(c) Impairment of fixed assets

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(d) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognised finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

(e) Other specification

Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the Group's depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

Construction in progress is tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current year. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) Borrowing costs *(Continued)*

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

(17) Intangible assets

(a) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognised only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortisation of other patents and licenses and capitalised interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(b) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortisation method are performed at each year-end.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Intangible assets (Continued)

(c) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows:

Expenditures on the research phase are all the expenditures incurred before the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

Expenditures on the development phase are all the expenditures incurred after the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(17) Intangible assets *(Continued)*

(c) Research and development *(Continued)*

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(d) Impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(18) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(19) Provisions

Provisions for product warranties, onerous contracts etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Provisions (Continued)

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(20) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

(a) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer and the customer has accepted the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

(c) Rendering of services

The revenue from rendering of services is recognised using the percentage of completion method.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) Revenue *(Continued)*

(d) Transfer of asset use rights

Income from transfer of asset use rights include:

- Interest income is recognised on a time-proportion basis using the effective interest method;
- License fee income is recognised when the right to receive payment is established;
- Income from an operating lease is recognised on a straight-line basis over the period of the lease.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

(21) Government grants

Government grants are transfers of monetary or non-monetary assets obtained by the Group from the government at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant shall be recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset shall be recognised as deferred revenue, and evenly amortised to profit or loss over the useful life of the related asset. Grants measured at nominal amounts are recognised immediately in profit or loss for the current year.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognised; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognised immediately in profit or loss for the current year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(22) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- the tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(23) Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current year.

(b) Finance leases

The leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

(24) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

There are no changes in accounting policies in the current year.

(b) Changes in accounting estimates

There are no changes in accounting estimates in the current year.

(25) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Other significant accounting policies

(a) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group.

An operating segment's revenue, expenses, operating result, assets and liabilities include those directly attributable to the operating segment, and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of the operating segment are determined at the amounts before the elimination of inter-group transactions and balances. Transfer price between operating segments is calculated on terms similar to those in arm's length transactions.

(b) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Where the Group terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from the termination of an employment relationship with employees shall be recognised, with a corresponding charge to profit or loss when the Group has made a formal plan for termination of an employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Group unilaterally.

Employee benefits are recognised as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(26) Other significant accounting policies *(Continued)*

(c) Profit distribution

Cash dividend distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

(27) Critical accounting estimates and judgments

(a) Current and deferred income tax

The Group is subject to income taxes in the People's Republic of China (the "PRC"). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets in the period in which such estimate is changed.

Eight subsidiaries of the Group (Refer to Note 3 for the detailed listing) recognised as New/High enterprises were entitled to the preferential enterprise income tax rate of 15%, among which 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 enterprise income tax for the year ended 31 December 2011 is 15%.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

3 TAXATION

(1) The types and rates of taxes applicable to the Group

(a) Turnover tax and Real-estate tax

Taxable item	Type	Tax rate
Sales of goods	Value-added tax ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	Business tax	5%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%

(b) City maintenance and construction tax

Calculated and paid based on 7% of the amount of VAT, business tax and consumption tax paid.

(c) Education surcharge

Calculated and paid based on 3% of the amount of VAT, business tax and consumption tax paid.

(d) Local education surcharge

Calculated and paid based on 2% of the amount of VAT, business tax and consumption tax paid.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3 TAXATION (Continued)

(1) The types and rates of taxes applicable to the Group (Continued)

(e) Enterprise income tax

Seven subsidiaries of the Group, Guangzhou Zhong Yi Pharmaceutical Co., Ltd, Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd, Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Xing Qun Pharmaceutical Co., Ltd., Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd., Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd., 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.

The certificates of the six subsidiaries (namely, Guangzhou Zhong Yi Pharmaceutical Co., Ltd. and etc), numbering GR200844000618, GR200844000446, GR200844000475, GR200844000599, GR200844000937, GR200844001238 respectively, were issued in December 2008 and the effective period is 3 years. The certificate of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd., numbering GR201044000004, was issued in September 2010 and the effective period is 3 years. The certificate of subsidiary Guangxi Ying Kang Pharmaceutical Co., Ltd., numbering GR200945000085, was issued in November 2009 and the effective period is 3 years.

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%.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)		Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('0000)	Interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
						Entity type	Entity type									Amount of minority interests adjusted against minority interest
Direct subsidiaries:																
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	7,717	Production of CPM	12,532	Stock corporation	Yao Jiaoxiong	19051196-X	-	88.99%	88.99%	Yes	1,303	-	-
Guangzhou Zhong Yi Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	21,741	Production of CPM	32,432	Limited Liability Company	Wu Changhai	19045979-4	-	100%	100%	Yes	-	-	-
Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	11,285	Production of CPM	14,231	Limited Liability Company	Ouyang Qiang	19045981-5	-	100%	100%	Yes	-	-	-
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	16,876	Research and development of medicine and health products	17,172	Limited Liability Company	Huang Xiang	71241860-8	-	99.26%	99.26%	Yes	39	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	8,242	Production of CPM	12,678	Limited Liability Company	Li Guangliang	19045980-7	-	100%	100%	Yes	-	-	-
Guangzhou Jing Xu Tang Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	8,623	Production of CPM	10,149	Stock corporation	Yan Zhibiao	19047922-6	-	88.40%	88.40%	Yes	1,834	-	-
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	6,544	Production of CPM	14,430	Stock corporation	Wei Dahua	19048780-8	-	87.77%	87.77%	Yes	2,545	-	-
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	3,222	Trading of CPM and Chinese raw medicine	8,908	Limited Liability Company	Zhou Lushan	19050398-6	-	100%	100%	Yes	-	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	2,400	Import and export trading of medicine	1,856	Limited Liability Company	Li Haobiao	19047097-7	-	100%	100%	Yes	-	-	-
Guangzhou Bai Di Biotechnology Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	13,160	Research and development of patented biological products	12,915	Limited Liability Company	Chen Jiannong	73154713-0	-	98.48%	98.48%	Yes	71	-	-
Indirect subsidiaries:																
Guangzhou Qi Xing Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	10,000	Production of CPM	7,500	Limited Liability Company	Wu Changhai	61841434-4	-	75%	75%	Yes	3,814	-	-
Guangzhou Jing Xu Tang 1790 Trading Co., Ltd. (*)	Subsidiary	Guangzhou	Trading	50	Sales of cosmetic	98	Limited Liability Company	Chen Zhixiong	76611890-X	-	45.08%	51%	Yes	19	-	-
Guangzhou Pan Gao Shou Natural Health Products Co., Ltd. (*)	Subsidiary	Guangzhou	Manufacturing	1,400	Production and processing of food and health products	1,106	Limited Liability Company	Wei Dahua	19145513-8	-	78.99%	90%	Yes	62	-	-
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Wholly-owned subsidiary	Guangzhou	Trading	294	Retailing of Chinese raw medicine and CPM	393	State-owned enterprise	Zhou Lushan	19056067-3	-	100%	100%	Yes	-	-	-
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Wholly-owned subsidiary	Guangzhou	Manufacturing	80	Processing of Chinese raw medicine	311	State-owned enterprise	Zhou Lushan	19066119-1	-	100%	100%	Yes	-	-	-

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Subsidiaries acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('0000)	interest in the profit or loss ('0000)	Ending balance after
																the Company's equity interest adjusted against the amount of the current year's adjusted losses in subsidiaries against minority interest exceeded the opening balance of minority interest ('0000)
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese raw medicine Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	500	Trading of CPM and Chinese raw medicine	500	Limited Liability Company	Zhou Lushan	78120107-4	-	100%	100%	Yes	-	-	-
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	668	Trading of medical apparatus	668	Limited Liability Company	Lao Zhicong	68766959-4	-	100%	100%	Yes	-	-	-
Xizang Lin Zhi Guang Yang Development Co., Ltd.*	Subsidiary	Xizang	Trading	200	Production and trading of local product, and craft	110	Limited Liability Company	Huang Xiang	58575303-1	-	54.74%	55%	Yes	90	-	-
Guangzhou Pan Gao Shou Food Beverage Co., Ltd.*	Subsidiary	Guangzhou	Manufacturing	100	Trading of pre-packaged food	100	Limited Liability Company	Wei Dahua	58339020-6	-	87.77%	100%	Yes	-	-	-

Note *: The reason of difference between ratio of equity interest held and ratio of voting rights held of these four companies is that Company indirectly holds these four companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Xizang Lin Zhi Guang Yang Development Co., Ltd. is a newly set-up company in 2011, 35% and 20% directly held by Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. respectively, both of which are the subsidiaries of the Company. The Company indirectly controls Xizang Lin Zhi Guang Yang Development Co., Ltd. through the equity interest held by its subsidiaries Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. and exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Xizang Lin Zhi Guang Yang Development Co., Ltd. has been consolidated from the date on which the Group obtains control in 2011.

Guangzhou Pan Gao Shou Food Beverage Co., Ltd. is a newly set-up company in 2011, 100% directly held by Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd., which is a subsidiary of the Company. The Company indirectly controls Guangzhou Pan Gao Shou Food Beverage Co., Ltd. through the equity interest held by its subsidiary Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. and exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Guangzhou Pan Gao Shou Food Beverage Co., Ltd. has been consolidated from the date on which the Group obtains control in 2011.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital		Legal representative	Organization code	Actual investment at end of period ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('0000)	Interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries against minority interest exceeded the opening balance of minority interest.
				('0000)	Entity type									(Minority interest in the profit or loss)
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	Nanning	Manufacturing	3,188	Limited Liability Company	Feng Yaowen	19828518-6	2,172	51%	51%	Yes	1,575	-	-

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2011			31 December 2010		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
Cash on hand						
RMB			1,226,200.50			1,236,423.35
Hong Kong Dollars ("HKD")	12,038.58	0.8107	9,759.80	2,009.08	0.8525	1,712.05
			<u>1,235,960.30</u>			<u>1,238,135.40</u>
Bank deposits						
RMB			347,704,507.24			688,647,645.25
US Dollars ("USD")	406,854.08	6.3009	2,563,546.87	67,763.13	6.6719	452,108.05
HKD	2,506,669.98	0.8107	2,032,157.35	1,112,476.55	0.8525	948,419.09
			<u>352,300,211.46</u>			<u>690,048,172.39</u>
Other deposits						
RMB			30,564,136.08			16,073,400.30
HKD	43,703.27	0.8107	35,430.24	43,823.49	0.8525	37,289.41
			<u>30,599,566.32</u>			<u>16,110,689.71</u>
			<u>384,135,738.08</u>			<u>707,396,997.50</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Cash at bank and on hand (Continued)

Details of restricted cash are listed as below:

	31 December 2011	31 December 2010
Deposit for notes payable	–	1,633,600.00
Deposit for foreign exchange forward contract	27,838,849.42	8,867,878.83
Deposit for housing fund	548,384.33	548,384.33
	28,387,233.75	11,049,863.16

(2) Financial assets held for trading

	31 December 2011	31 December 2010
Listed shares	3,127,692.50	6,669,292.02
Unlisted financial instruments issued by bank	–	5,000,000.00
	3,127,692.50	11,669,292.02
Including: market value of listed investment	3,127,692.50	6,669,292.02

The fair value of listed shares is determined at the closing price of Shanghai Stock Exchange on the last trading day of the reporting period.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable

- (a) Classification of notes receivable

	31 December 2011	31 December 2010
Bank acceptance notes	407,381,339.40	173,513,942.09
Trade acceptance notes	23,006,735.85	26,956,938.40
	430,388,075.25	200,470,880.49

- (b) As at 31 December 2011, notes receivable being pledged amounted to RMB5,111 thousand (as at 31 December 2010: nil), and all of which are summarised as below:

Company of issuance	Date of issuance	Due date	Amount
Guangdong Shantou Chuang Mei Medicine Trading Co., Ltd	2011.11.2	2012.5.2	2,676,927.76
Guangdong Province Dongguan National Pharmaceutical Group Co., Ltd.	2011.11.15	2012.2.15	1,000,000.00
Jiangsu Jiu Zhou Tong Pharmaceutical Co., Ltd	2011.9.22	2012.3.22	624,000.00
Zhongshan Jinrui Pharmaceutical., Ltd	2011.11.30	2012.2.29	810,000.00
			<u>5,110,927.76</u>

- (c) As at 31 December 2011, notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance and that are not matured but have been endorsed are summarised as follows:

- (i) As at 31 December 2011, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(c) As at 31 December 2011, notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance and that are not matured but have been endorsed are summarised as follows: (Continued)

(ii) As at 31 December 2011, the bank acceptance notes that are not matured but have been discounted amounted to RMB14,720 thousand (as at 31 December 2010: RMB25,872 thousand), and the top five of which are summarised as below:

Company of issuance	Date of issuance	Due date	Amount
Lu Xiang Co., Ltd Guangdong Shantou	2011.12.2	2012.6.2	10,000,000.00
Chuang Mei Medicine Trading Co., Ltd	2011.11.24	2012.3.8	1,710,000.00
Guangdong Tai Tong Pharmaceutical Co., Ltd Guangdong Shantou	2011.8.12	2012.2.12	1,590,682.40
Chuang Mei Medicine Trading Co., Ltd	2011.8.16	2012.2.16	1,319,300.00
Hefei Jia Cheng Pharmaceutical Co., Ltd	2011.7.20	2012.1.20	50,000.00

(iii) As at 31 December 2011, the notes receivable that are not matured but have been endorsed amounted to RMB609,765 thousand (as at 31 December 2010: RMB513,687 thousand), and the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2011.10.24	2012.2.24	9,000,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2011.10.27	2012.4.27	8,500,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2011.10.27	2012.4.27	7,300,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2011.10.27	2012.4.27	6,200,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2011.12.15	2012.6.15	5,000,000.00

(d) As at 31 December 2011, the trade acceptance notes that are not matured but have been endorsed amounted to RMB2,171 thousand (as at 31 December 2010: nil), detailed list as follow:

Company of issuance	Date of issuance	Due date	Amount
Shanghai Han Fei Biochemical Technology Co., Ltd	2011.7.12	2012.1.1	1,201,500.00
Shanghai Han Fei Biochemical Technology Co., Ltd	2011.8.3	2012.2.3	969,000.00

(e) As at 31 December 2011, there are no trade acceptance notes that are not matured but have been discounted (as at December 2010: nil).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 settled at cash, advance or bank notes.

(a) The aging of accounts receivable is analyzed as 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
	463,272,917.69	361,623,301.86

(b) Accounts receivable by categories are analyzed as follows:

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	4,683,661.62	1.01%	3,966,224.12	84.68%
Subject to provision by groups: Group with credit risk characteristic by aging	453,482,684.01	97.89%	7,618,382.91	1.68%
Individually insignificant but subject to separate provision	5,106,572.06	1.10%	5,091,943.70	99.71%
	463,272,917.69	100.00%	16,676,550.73	3.60%

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

(b) Accounts receivable by categories are analyzed as follows: (Continued)

	31 December 2010			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	4,944,435.16	1.37%	3,918,066.89	79.24%
Subject to provision by groups:				
Group with credit risk characteristic by aging	350,277,010.07	96.86%	20,206,030.02	5.77%
Individually insignificant but subject to separate provision	6,401,856.63	1.77%	6,316,319.53	98.66%
	<u>361,623,301.86</u>	100.00%	<u>30,440,416.44</u>	8.42%

Classification of accounts receivable: refer to Note 2(10).

(c) As at 31 December 2011, accounts receivable that are individually significant and subject to separate provision are analyzed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Guangdong Liyuan Pharmaceutical Co. Ltd	3,609,187.50	2,891,750.00	80.12%	It is hard to collect all receivables due from this company as it is in poor situation.
Hebei Traditional & Herbal Medicine Co., Ltd.	1,074,474.12	1,074,474.12	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.
	<u>4,683,661.62</u>	<u>3,966,224.12</u>	84.68%	

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analyzed as follows:

	31 December 2011			31 December 2010		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	443,771,562.27	97.86%	4,437,715.62	329,116,982.35	93.96%	3,291,169.77
1 to 2 years	5,860,758.02	1.29%	586,075.80	3,246,190.85	0.93%	324,619.09
2 to 3 years	761,147.66	0.17%	228,344.30	1,508,232.06	0.43%	452,469.69
3 to 4 years	1,374,882.45	0.30%	687,441.23	496,117.42	0.14%	248,058.71
4 to 5 years	177,638.24	0.04%	142,110.59	98,873.13	0.03%	79,098.50
Over 5 years	1,536,695.37	0.34%	1,536,695.37	15,810,614.26	4.51%	15,810,614.26
	453,482,684.01	100.00%	7,618,382.91	350,277,010.07	100.00%	20,206,030.02

- (e) As at 31 December 2011, accounts receivable that are individually insignificant but subject to separate provision are analyzed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Ruzhou City Tong Xin Pharmaceutical Co., Ltd.	508,889.00	508,889.00	100.00%	Although the Group has this company, it is expected that the amount would not be recoverable.
Yunnan Shang He Pharmaceutical Co., Ltd.	492,000.16	492,000.16	100.00%	This company is in poor situation and it is expected that the amount would not be recoverable.
Guangzhou Xingtai Shangmao Development Co. Ltd	337,004.40	337,004.40	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.
Other customers	3,768,678.50	3,754,050.14	99.61%	It is expected that the amount would not be fully recoverable.
	5,106,572.06	5,091,943.70	99.71%	

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

(f) Reversal or collection during the current year is as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount received	Amount of reversal of provision for bad debts
Accounts receivable due from certain customers	Some receivables were collected due to efforts on collection	Certain customers were not able to settle the receivables according to contracts or agreements	4,810,899.93	4,810,899.93	-

(g) There are no accounts receivable that have been collected by restructuring or other manners during the current year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

- (h) Accounts receivable that are written off in the current year amounted to RMB11,143 thousand and are analyzed as follows:

	Nature	Amount	Reason	Arising from related party transactions or not
Jieyang Nan Tian Pharmaceutical Co., Ltd.	Sales of Medicine	423,847.78	It is confirmed that the amount would not be recoverable	No
Shanxi Taiyuan Medicine Supplying and Trading Co., Ltd.	Sales of Medicine	343,292.29	It is confirmed that the amount would not be recoverable	No
Shenzhen Gold Chopsticks Trading Co., Ltd.	Sales of Medicine	329,151.88	It is confirmed that the amount would not be recoverable	No
Panyu Speciality Co., Ltd.	Sales of Medicine	276,129.68	It is confirmed that the amount would not be recoverable	No
Hunan Medicine Co., Ltd.	Sales of Medicine	260,461.01	It is confirmed that the amount would not be recoverable	No
Other Customers	Sales of Medicine	9,510,226.33	It is confirmed that the amount would not be recoverable	No
		11,143,108.97		

- (i) As at 31 December 2011, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB7 thousand from GPLH (as at 31 December 2010: account receivable of RMB14 thousand from GPLH).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

(j) As at 31 December 2011, the top five of accounts receivable are analyzed as follows:

	Relationship with the Group	Amount	Aging	% of total balance
Guangdong Weikang Pharmaceutical Co. Ltd	Third Party	30,302,745.80	Within 1 year	6.54%
Sino Gas (Zhuhai) Limited	Third Party	11,450,000.00	Within 1 year	2.47%
Guangzhou Pharmaceuticals Corporation	Jointly controlled entities	9,161,542.02	Within 1 year	1.98%
Dongguan Ye Lian Highway Asphalt Co., Ltd.	Third Party	8,616,320.00	Within 1 year	1.86%
No.1 Hospital affiliated to sun yat-sen university	Third Party	7,110,622.04	Within 1 year	1.53%
		66,641,229.86		14.38%

(k) As at 31 December 2011, accounts receivable from related parties accounted for 6.22% of total accounts receivable balance (as at 31 December 2010: 8.39%): refer to Note 6 for details.

(l) There are no accounts receivables derecognised due to transfer of financial assets during the current year.

(m) As at 31 December 2011, there are no securitisations that targeted at accounts receivable.

(n) Accounts receivable denominated in foreign currency are summarised as follows:

	31 December 2011			31 December 2010		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	688,088.10	6.3009	4,335,574.31	632,373.15	6.6227	4,188,017.66
HKD	1,881,743.58	0.8107	1,525,529.52	1,616,161.90	0.8509	1,375,192.16
			5,861,103.83			5,563,209.82

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables

	31 December 2011	31 December 2010
Petty cash	2,969,220.83	2,313,439.96
Deposits	9,467,993.44	11,383,772.82
Staff advances	9,693,332.36	9,753,861.54
Receivables due from external parties	25,079,262.00	13,871,024.87
Receivables due from related parties (Note 6(5))	2,801,723.16	2,242,120.33
Tax refund for exports	7,451,438.81	7,109,586.93
Taxes pending for customs registration	4,092,536.47	3,417,899.57
Others	2,292,731.23	2,501,007.92
	63,848,238.30	52,592,713.94
Less: provision for bad debts	9,791,420.67	9,451,810.77
	54,056,817.63	43,140,903.17

(a) Other receivables by categories are analyzed as follows:

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	8,901,925.26	13.94%	8,901,925.26	100.00%
Subject to provision by groups:				
Group with credit risk characteristics by aging	260,730.63	0.41%	132,955.99	50.99%
Group in which provision for bad debts are made by specific identification	32,759,081.58	51.31%	-	-
Receivables due from related parties	2,801,723.16	4.39%	100,000.00	3.57%
Deposits and staff advances	18,463,959.05	28.92%	-	-
Individually insignificant but subject to separate provision	660,818.62	1.03%	656,539.42	99.35%
	63,848,238.30	100.00%	9,791,420.67	15.34%

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(a) Other receivables by categories are analyzed as follows: (continued)

	31 December 2010			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	8,562,009.10	16.28%	8,562,009.10	100.00%
Subject to provision by groups:				
Group with credit risk characteristics by aging	1,368,048.72	2.60%	148,701.77	10.87%
Group in which provision for bad debts are made by specific identification	23,544,243.14	44.77%	-	-
Receivables due from related parties	2,242,120.33	4.26%	100,000.00	4.46%
Deposits and staff advances	16,203,043.08	30.81%	-	-
Individually insignificant but subject to separate provision	673,249.57	1.28%	641,099.90	95.23%
	<u>52,592,713.94</u>	100.00%	<u>9,451,810.77</u>	17.98%

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

- (b) As at 31 December 2011, other receivables that are individually significant and subject to separate provision are analyzed as follows:

Company name	Ending balance	Provision for bad debts	Ratio	Reason
Sui Lian Purchase & Sales department	2,868,759.75	2,868,759.75	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
Cai Zhi Lin Maoming Sales Store	1,520,000.00	1,520,000.00	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
The 3rd Construction Company of Guangdong Province	1,025,878.50	1,025,878.50	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable.
Sichuan Mianzhu Yong Long Biological Products Co., Ltd.	945,935.20	945,935.20	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
Bank of Hainan	502,043.54	502,043.54	100.00%	As this company is on bankruptcy liquidation procedures, it is expected that the amount would not be recoverable.
Others	2,039,308.27	2,039,308.27	100.00%	It is expected that the amount would not be recoverable.
	<u>8,901,925.26</u>	<u>8,901,925.26</u>	100.00%	

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

- (c) The groups of other receivables in which provisions are made using aging analysis method are analyzed as follows:

	31 December 2011			31 December 2010		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	33,033.00	12.67%	330.33	998,695.11	73.00%	9,986.95
1 to 2 years	24,480.97	9.39%	2,448.10	109,739.15	8.02%	10,973.92
2 to 3 years	48,213.00	18.49%	14,463.90	188,390.80	13.77%	56,517.24
3 to 4 years	78,580.00	30.14%	39,290.00	–	–	–
4 to 5 years	–	–	–	–	–	–
Over 5 years	76,423.66	29.31%	76,423.66	71,223.66	5.21%	71,223.66
	260,730.63	100.00%	132,955.99	1,368,048.72	100.00%	148,701.77

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

- (d) Other receivables that are individually insignificant but subject to separate provision are analyzed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Yada drying equipment factory	85,500.00	85,500.00	100.00%	It is expected that the amount would not be recoverable.
Advances for staff residence	71,739.00	71,739.00	100.00%	It is expected that the amount would not be recoverable.
Deposits for files, etc.	65,846.20	65,846.20	100.00%	It is expected that the amount would not be recoverable.
Deposit for the ammeter of No. 252 Renmin Middle Road	58,700.00	58,700.00	100.00%	It is expected that the amount would not be recoverable.
Kunming Pharmaceutical Group Co., Ltd.	50,805.54	46,526.34	91.58%	It is expected that the amount would not be recoverable.
Others	328,227.88	328,227.88	100.00%	It is expected that the amount would not be recoverable.
	<u>660,818.62</u>	<u>656,539.42</u>	99.35%	

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

- (e) Other receivables that are subject to full provision or in large proportionate but are reversed or collected in full amount of in large proportionate amounted to RMB1,581 thousand in the current year, details are as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount collected	Amount of reversal of provision for bad debts
Receivables from Nanfang Securities Co., Ltd.	Collection through legal procedures	Liquidation of Nanfang Securities Co., Ltd.	1,317,784.35	1,317,784.35	-
Others	Collection of relevant business documents	Long aging	263,551.79	-	263,551.79
			<u>1,581,336.14</u>	<u>1,317,784.35</u>	<u>263,551.79</u>

- (f) There are no other receivables that have been collected by restructuring or other manners in the current year.

- (g) Other receivables that are written off in prior years but collected in the current year amounted to RMB1,318 thousand, and that have been written off in the current year amounted to RMB14 thousand, details are as follows:

Name of entity	Nature	Amount collected	Reason	Arising from related party transactions or not
Nanfang Securities Co., Ltd.	Distribution of liquidation	(1,317,784.35)	Collection of other receivable written off in prior year	No.
Qingyuan Green Resources Pharmaceutical Apparatus Technology Service Center	Engineering inspection fee	14,310.00	It is not able to collect the receivables.	No.
		<u>(1,303,474.35)</u>		

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

- (h) As at 31 December 2011, other receivables from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is other receivable of RMB1,287 thousand from GPLH (as at 31 December 2010: other receivable of RMB1,748 thousand from GPLH).
- (i) As at 31 December 2011, the top five of other receivables are analyzed as below:

	Relationship with the Company	Amount with the Company	Aging	% of total balance
The State Tax Bureau of Liwan District, Guangzhou	Third party	7,451,438.81	Within 1 year	11.67%
Zhiyu Property Management Co.,Ltd.	Third party	5,841,568.75	Within 1 year	9.15%
Guangzhou Customs	Third party	4,092,536.47	Within 1 year	6.41%
Yinzuo Shopping Mall in Yuexiu District, Guangzhou	Third party	3,296,457.96	Within 1 year	5.16%
Sui Lian Purchase & Sales Department	Third party	2,868,759.75	Over 5 years	4.49%
		23,550,761.74		36.88%

- (j) As at 31 December 2011, the other receivables from related parties accounted for 4.39% of the total other receivables balance (as at 31 December 2010: 4.26%): refer to Note 6 for details.
- (k) There are no other receivables derecognised due to transfer of financial assets during the current year.
- (l) As at 31 December 2011, there are no securitisations that targeted at other receivables.
- (m) As at 31 December 2011, all other receivables are denominated in RMB.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Advances to suppliers

(a) The aging of advances to suppliers is analyzed as follows:

	31 December 2011		31 December 2010	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	128,378,152.12	96.88%	123,014,618.70	96.90%
1 to 2 years	388,671.57	0.29%	81,460.32	0.06%
2 to 3 years	25,434.89	0.02%	4,800.00	0.00%
Over 3 years	3,725,926.40	2.81%	3,859,101.71	3.04%
	132,518,184.98	100.00%	126,959,980.73	100.00%

(b) As at 31 December 2011, the top five of advances to suppliers are analyzed as follows:

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Hunan Xiang Yao Medicine Manufacturing Company	Third party	16,159,500.00	Within 1 year	Normal purchases
Guangzhou De Feng Hang Petrochemical Co.,Ltd.	Third party	14,087,000.00	Within 1 year	Normal purchases
Guangdong Shun Neng Development Co.,Ltd.	Third party	6,797,044.50	Within 1 year	Normal purchases
Hanshou Dongting Wood Limited Liability Company	Third party	6,721,561.50	Within 1 year	Normal purchases
Guizhou Changhao Chinese Medicines Development Co.,Ltd	Third party	6,627,061.95	Within 1 year	Normal purchases
		50,392,167.95		

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(6) Advances to suppliers *(Continued)*

- (c) As at 31 December 2011, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2010: nil).
- (d) As at 31 December 2011, the advances to related parties accounted for 1.28% of the total balance of advances to suppliers (as at 31 December 2010: 8.32%): refer to Note 6 for details.
- (e) As at 31 December 2011, the advances to suppliers denominated in foreign currency are summarised as follows:

	31 December 2011			31 December 2010		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	33,600.00	6.3009	211,710.24	73,431.89	6.6227	486,317.38
Euro Dollars ("EUR")	-	N/A	-	619,000.00	8.8065	5,451,223.50
			211,710.24			5,937,540.88

- (f) As at 31 December 2011, there are no significant advances to suppliers whose aging are more than one year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventories

(a) Classification of Inventories

	31 December 2011			31 December 2010		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Goods in transit	2,822,514.87	-	2,822,514.87	3,763,971.55	-	3,763,971.55
Raw materials	162,295,399.51	79,359.46	162,216,040.05	145,771,137.26	139,301.44	145,631,835.82
Work in progress	59,482,035.37	-	59,482,035.37	67,968,684.19	-	67,968,684.19
Semi-finished goods	83,813,983.59	891,968.80	82,922,014.79	73,035,697.03	891,968.80	72,143,728.23
Finished goods	200,055,619.57	5,126,671.71	194,928,947.86	167,401,104.04	4,450,701.55	162,950,402.49
Low-value consumables	2,869,449.33	-	2,869,449.33	2,370,800.33	-	2,370,800.33
Packaging materials	28,445,992.55	-	28,445,992.55	24,696,061.11	-	24,696,061.11
Goods In processing contract	14,035.85	-	14,035.85	-	-	-
Goods on consignment	-	-	-	37,033.28	-	37,033.28
Commodity Stocks	325,685,800.09	442,167.56	325,243,632.53	270,434,238.81	1,453,067.66	268,981,171.15
Others	61,179.30	-	61,179.30	6,511,902.13	-	6,511,902.13
	865,546,010.03	6,540,167.53	859,005,842.50	761,990,629.73	6,935,039.45	755,055,590.28

(b) Provisions for declines in the value of inventories

	31 December 2010	Current year additions	Current year reductions		31 December 2011
			Reversal	Write-off	
Raw materials	139,301.44	43,237.63	1,255.58	101,924.03	79,359.46
Work in progress	891,968.80	-	-	-	891,968.80
Finished goods	4,450,701.55	4,912,067.35	545,003.19	3,691,094.00	5,126,671.71
Commodity stocks	1,453,067.66	92,439.94	-	1,103,340.04	442,167.56
	6,935,039.45	5,047,744.92	546,258.77	4,896,358.07	6,540,167.53

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventories (Continued)

(c) Provisions for declines in the value of inventories are analyzed as follows:

Item	Basis for provision	Reason for reversal	% of amount of reversal vs. inventory balance
Raw materials	Amount of carrying amount over net realisable value	Increase in net realisable value	0.00%
Finished goods	Amount of carrying amount over market price	Increase in market price	0.27%

(8) Other current assets

	31 December 2011	31 December 2010
Deductible Input VAT	2,342,210.36	1,299,250.20

The Group pays the enterprise income tax, VAT and other taxes in accordance with taxation laws, and presents them on the balance sheet based on their nature in accordance with the provisions of "Accounting Standards for Business Enterprises No.30 – Presentation of Financial Statements". For balance of deductible VAT, it is requested to be presented as "Other current assets" or "Other non-current assets" in the balance sheet based on its liquidity. Thus, the Group presented deductible VAT as of 31 December 2011 as "Other current assets", and reclassified the deductible VAT as of 31 December 2010 to "Other current assets" accordingly.

(9) Available-for-sale financial assets

	31 December 2011	31 December 2010
Available-for-sale equity instruments	18,907,856.64	25,615,245.16

The available-for-sale financial assets comprise the A-share of China Everbright Bank Company Limited and A-share of Bank of Communications held by the Group, and the fair value of which is determined at the closing price of Shanghai Stock Exchange on the last trading day of the reporting period. The lockup period for the A-share of China Everbright Bank Company Limited held by the Group is from 18 August 2010 to 17 August 2011.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Investments in jointly controlled entities and associates

Entity	Enterprise type	Registered address	Legal Representative	Principal activities	Registered capital		Voting right	Total liabilities			Sales for the current year (RMB'0000)	Net profit for the current year (RMB'0000)
					(RMB'0000)	Share holding		Total assets at end of period (RMB'0000)	at end of period (RMB'0000)	Net assets at end of period (RMB'0000)		
1. Jointly controlled entities												
Guangzhou Pharmaceuticals Corporation	Sino-foreign equity joint venture	Guangzhou	FRITZ HORLACHER	Trading of western pharmaceutical products and medical apparatus	70,000	50.00%	50.00%	686,881	517,281	169,600	1,580,622	14,293
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Sino-foreign equity joint venture	Guangzhou	Wang jianyi	Production of CPM	20,476	48.05%	48.05%	120,393	41,060	79,333	193,149	14,234
Guangzhou Nuo Cheng Bio-tech Co., Ltd. (*)	Stock corporation	Guangzhou	Zhou Lijian	Production and sale of bio-products	8,400	49.24%	50.00%	24,047	14,544	9,503	16,976	3,470
2. Associates												
Hangzhou Zheda Hang Fang Chinese Medical Infor. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Infor. engineering and infor. service	100	44.00%	44.00%	6	4	2	-	-
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhu Hai	Liu Dong	Fund management	25,000	20.00%	20.00%	20,551	1,815	18,736	12,738	115
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Production of health medicine	200	38.25%	38.25%	6	3	3	-	-
Shanghai Jiuhetang Chinese Medicine Co., Ltd. (*)	Limited Liability Company	Shanghai	Fang Liang	Sales of Chinese medicine	190	25.76%	27.26%	9,084	8,575	509	17,116	4

Note *: The reason of difference between ratio of equity interest held and ratio of voting rights held of these two companies is that the Company indirectly holds these two companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

None of the jointly controlled entities and associates of the Group are listed companies.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments

(a) Details of long-term equity investments

Entity	Investment cost	31 December 2010	Current year movement	31 December 2011	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current year	Cash dividend in current year
Equity method:									
Guangzhou Pharmaceuticals Corporation	396,589,139.78	567,532,711.38	216,176,097.35	783,708,808.73	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	342,580,629.06	38,827,075.51	381,407,704.57	48.05%	48.05%	-	-	29,513,531.70
Guangzhou Nuo Cheng Bio-tech Co., Ltd.(*)	42,000,000.00	28,882,604.71	17,350,997.07	46,233,601.78	49.24%	50.00%	-	-	-
Hangzhou Zheda Hang Fang Chinese Medical Infor. Engineering Co., Ltd.	440,000.00	-	-	-	44.00%	44.00%	-	-	-
Golden Eagle Fund Management Co., Ltd	50,000,000.00	7,179,119.80	30,230,974.87	37,410,094.67	20.00%	20.00%	-	-	-
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Shanghai Jiuhetang Chinese Medicine Co., Ltd.(*)	515,000.00	536,256.08	10,937.63	547,193.71	25.76%	27.26%	-	-	-
Subtotal	592,344,264.22	946,711,321.03	302,596,082.43	1,249,307,403.46	-	-	-	-	29,513,531.70
Cost method:									
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Mazhong Medicine of Qi Xing Pharmaceutical Co.,Ltd.	362,826.38	362,826.38	-	362,826.38	40.00%	40.00%	-	-	-
San You Development Co.,Ltd of Indonesia	1,078,551.23	1,078,551.23	-	1,078,551.23	50.00%	50.00%	1,078,551.23	-	-
Sales Store of Peking Road of Guangzhou Medicine Co.,Ltd	218,399.05	218,399.05	-	218,399.05	20.00%	20.00%	-	-	-
South China Innovative Pharmaceutical Co.,Ltd of Guangdong	5,000,000.00	5,000,000.00	-	5,000,000.00	5.56%	5.56%	-	-	-
Subtotal	6,859,776.66	6,859,776.66	-	6,859,776.66	-	-	1,078,551.23	-	-
Total	599,204,040.88	953,571,097.69	302,596,082.43	1,256,167,180.12	-	-	1,078,551.23	-	29,513,531.70

Note *: The reason of difference between ratio of equity interest held and ratio of voting rights held of these two companies is that the Company indirectly holds these two companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments (Continued)

(a) Details of long-term equity investments (Continued)

The Group have not actually involved in the operation of Mazhong Medicine of Qi Xing Pharmaceutical Co.,Ltd. and Sales Store of Peking Road of Guangzhou Medicine Co.,Ltd., nor exercised any control on them, in which the investments were measured using the cost method.

(b) There are no limitation on fund transfer between the Group and its investing entities.

(12) Investment properties

(a) Investment properties-cost method

	31 December 2010	Addition	Disposal	31 December 2011
Cost	190,145,274.46	–	3,731,246.50	186,414,027.96
Buildings	179,110,881.19	–	3,731,246.50	175,379,634.69
Land use rights	11,034,393.27	–	–	11,034,393.27
Accumulated depreciation and amortisation	81,627,999.87	6,166,822.44	3,670,981.28	84,123,841.03
Buildings	77,301,761.08	5,940,656.61	3,670,981.28	79,571,436.41
Land use rights	4,326,238.79	226,165.83	–	4,552,404.62
Net book value	108,517,274.59			102,290,186.93
Buildings	101,809,120.11			95,808,198.28
Land use rights	6,708,154.48			6,481,988.65
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	108,517,274.59			102,290,186.93
Buildings	101,809,120.11			95,808,198.28
Land use rights	6,708,154.48			6,481,988.65

Depreciation charges for 2011 amounted to RMB5,941 thousand (for the year ended 31 December 2010: RMB6,268 thousand). Amortisation charges for 2011 amounted to RMB226 thousand (for the year ended 31 December 2010: RMB233 thousand).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Investment properties (Continued)

Land use rights within investment properties are all located in the PRC with useful life between 10 to 50 years.

For the year ended 31 December 2011, the investment properties generated leasing income amounted to RMB40,444 thousand (for the year ended 31 December 2010: RMB37,939 thousand), and incurred direct leasing expenses (e.g. taxes and surcharges) amounted to RMB6,798 thousand (for the year ended 31 December 2010: RMB6,404 thousand).

(13) Fixed assets

(a) Fixed assets

	31 December 2010	Addition	Disposal	31 December 2011
Cost	1,902,442,921.65	60,801,265.72	21,822,188.79	1,941,421,998.58
Buildings	918,064,584.81	17,781,668.94	2,808,744.87	933,037,508.88
Machinery and equipment	767,625,042.08	30,731,349.22	7,737,299.76	790,619,091.54
Motor vehicles	62,993,530.59	4,162,724.08	5,549,455.50	61,606,799.17
Electronic equipments	52,045,887.74	3,333,142.61	2,470,916.88	52,908,113.47
Office equipment	61,543,702.49	4,792,380.87	3,255,771.78	63,080,311.58
Decoration and fixtures	40,170,173.94	-	-	40,170,173.94
Accumulated depreciation	855,911,946.77	97,582,649.96	18,528,077.61	934,966,519.12
Buildings	267,337,558.66	31,900,283.90	1,020,730.38	298,217,112.18
Machinery and equipment	446,195,155.23	50,854,909.23	6,867,756.12	490,182,308.34
Motor vehicles	46,864,467.74	3,186,771.38	5,056,771.19	44,994,467.93
Electronic equipments	21,391,072.00	2,465,172.26	2,416,851.17	21,439,393.09
Office equipment	46,712,535.97	4,224,434.93	3,165,968.75	47,771,002.15
Decoration and fixtures	27,411,157.17	4,951,078.26	-	32,362,235.43
Provision for impairment	6,446,292.70	-	12,054.25	6,434,238.45
Buildings	5,199,353.89	-	-	5,199,353.89
Machinery and equipment	1,029,024.34	-	12,054.25	1,016,970.09
Motor vehicles	217,914.47	-	-	217,914.47
Electronic equipments	-	-	-	-
Office equipment	-	-	-	-
Decoration and fixtures	-	-	-	-
Carrying amount	1,040,084,682.18			1,000,021,241.01
Buildings	645,527,672.26			629,621,042.81
Machinery and equipment	320,440,862.51			299,419,813.11
Motor vehicles	15,911,148.38			16,394,416.77
Electronic equipments	30,654,815.74			31,468,720.38
Office equipment	14,831,166.52			15,309,309.43
Decoration and fixtures	12,759,016.77			7,807,938.51

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets (Continued)

(a) Fixed assets (Continued)

- (i) For the year ended 31 December 2011, the fixed assets transferred from construction in progress amounted to RMB47,923 thousand (for the year ended 31 December 2010: RMB62,160 thousand).
- (ii) Depreciation expenses for the year ended 31 December 2011 amounted to RMB97,583 thousand in total (for the year ended 31 December 2010: RMB99,287 thousand), of which RMB59,600 thousand, RMB2,513 thousand and RMB35,470 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (for the year ended 31 December 2010: RMB65,162 thousand, RMB1,894 thousand and RMB32,231 thousand, respectively).

- (b) As at 31 December 2011, the buildings and the machinery and equipment are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount	Note
Buildings	430,613.36	151,237.43	–	279,375.93	Entrust an agency to lease currently
Machinery and equipment	730,884.08	285,201.51	445,682.57	–	Chinese medicine slicing machine

- (c) As at 31 December 2011, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	18,356,743.74	Procedures are not complete, so the certificates are not handled.	Uncertain
Motor vehicles	232,687.50	Procedures are not complete, so the ownership cannot be transferred.	Uncertain
	<u>18,589,431.24</u>		

- (d) As at 31 December 2011, there are no fixed assets held for sale.

- (e) As at 31 December 2011, fixed assets held under operating leases are summarised as follows:

	Carrying Amount
Buildings	<u>12,198,966.54</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress

	31 December 2011			31 December 2010		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Construction in progress	20,369,955.46	-	20,369,955.46	27,452,013.77	-	27,452,013.77

(a) Movement of construction in progress

	Budget	31 December 2010	Current year reductions		31 December 2011	Source of funds	% contribution in budget
			Current year additions	Transferred to Fixed assets Other reductions			
Enhancement for Office computers and IT devices	2,500,000.00	1,076,702.03	1,417,516.21	1,696,449.01	797,769.23	-	Self-funding 99.77%
The Administration Building Construction Project	1,442,000.00	927,590.54	514,011.14	1,441,601.68	-	0.00	Self-funding 99.97%
The Science Lab Building Construction Project	2,936,000.00	1,117,392.29	1,818,689.24	2,494,609.90	441,471.63	-	Self-funding 100.00%
Yunpu New Equipment Project	6,082,000.00	2,814,922.53	2,937,328.28	4,380,802.85	147,230.77	1,224,217.19	Self-funding 94.58%
HPLC/MS Devices Upgrade Project	5,115,000.00	-	5,096,868.91	1,497,999.54	-	3,598,869.37	Self-funding 99.65%
Central air conditioning system, energy-saving projects	2,740,000.00	-	702,564.14	-	-	702,564.14	Self-funding 25.64%
Third workshop inside packaging speed up project	1,260,000.00	1,076,923.08	-	1,076,923.08	-	-	Self-funding 85.47%
Holeless casting machine and site improvement	9,500,000.00	-	4,186,912.06	-	-	4,186,912.06	Self-funding 44.07%
Improvement Project for Solid dosage Production Line, and GMP Project	1,860,000.00	1,338,434.82	130,118.50	1,468,553.32	-	-	Self-funding 78.95%
Anti-cancer Research Centre Construction Project	5,482,500.00	5,088,278.83	250,593.91	5,338,872.74	-	-	Self-funding 97.38%
Injection lecithin Research Project	10,790,000.00	7,687,871.57	417,962.63	8,105,834.20	-	-	Self-funding 84.73%
Olein Production Line	14,300,000.00	622,100.99	622,348.27	905,615.26	-	338,834.00	Self-funding 106.66%
Improvement Project for Sewage Disposal Line	1,500,000.00	-	669,854.15	-	-	669,854.15	Self-funding 44.66%
Solvent tank farm project	1,300,000.00	-	812,587.62	-	-	812,587.62	Self-funding 62.51%
Dormitory surrounding road works	1,600,000.00	-	917,961.00	-	-	917,961.00	Self-funding 57.37%
Near-infrared line detection	5,500,000.00	-	800,000.00	-	-	800,000.00	Self-funding 14.55%
Oral Liquid Auto-packaging Line	2,300,000.00	-	2,266,000.00	-	-	2,266,000.00	Self-funding 98.52%
Tendrill-leaved Fritillary Bulb Dose Auto-packaging Line	1,200,000.00	-	1,179,100.00	-	-	1,179,100.00	Self-funding 98.26%
Office Building Construction	5,000,000.00	-	233,776.58	-	-	233,776.58	Self-funding 4.68%
36 (self-numbering 38&11) Saiba Road warehouse construction project	2,000,000.00	-	1,992,567.30	1,992,567.30	-	-	Self-funding 99.63%
Animal Lab Construction	2,000,000.00	1,436,251.28	445,821.33	1,882,072.61	-	-	Self-funding 94.10%
Boiler Construction Project	1,788,300.00	16,960.00	1,700,187.14	1,717,147.14	-	-	Self-funding 100.00%
Others	23,974,436.30	4,248,585.81	14,118,921.15	13,924,157.61	1,004,070.00	3,439,279.35	Self-funding ---
		27,452,013.77	43,231,689.56	47,923,206.24	2,390,541.63	20,369,955.46	

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

- (b) For the year ended 31 December 2011, there are no borrowing costs eligible for capitalisation.
- (c) As at 31 December 2011, the construction progress of significant constructions in progress are analyzed as below:

	Progress
Yunpu New Equipment Project	Completion phase of construction
HPLC/MS Devices Upgrade Project	Under installation and testing
Holeless casting machine and site improvement	Construction phase
Oral Liquid Auto-packaging Line	Completion phase of construction
Tendril-leaved Fritillary Bulb Dose Auto-packaging Line	Completion phase of construction

(15) Intangible assets

(a) Details of intangible assets

	31 December 2010	Current year additions	Current year reductions	31 December 2011
Original cost	128,468,571.47	2,150,005.60	–	130,618,577.07
Land use rights	111,196,374.06	219,109.00	–	111,415,483.06
Industrial patents and technologies	10,128,802.54	300,000.00	–	10,428,802.54
Non-patent technologies	4,810,000.00	30,000.00	–	4,840,000.00
Trademarks	76,100.00	–	–	76,100.00
Others	2,257,294.87	1,600,896.60	–	3,858,191.47
Accumulated amortisation	30,571,458.10	3,975,029.88	–	34,546,487.98
Land use rights	25,189,427.50	2,489,819.64	–	27,679,247.14
Industrial patents and technologies	1,467,121.54	462,650.69	–	1,929,772.23
Non-patent technologies	3,141,335.80	535,856.08	–	3,677,191.88
Trademarks	48,196.76	7,610.00	–	55,806.76
Others	725,376.50	479,093.47	–	1,204,469.97
Impairment	934,043.28	–	–	934,043.28
Land use rights	480,700.24	–	–	480,700.24
Industrial patents and technologies	453,343.04	–	–	453,343.04
Non-patent technologies	–	–	–	–
Trademarks	–	–	–	–
Others	–	–	–	–
Carrying amount	96,963,070.09			95,138,045.81
Land use rights	85,526,246.32			83,255,535.68
Industrial patents and technologies	8,208,337.96			8,045,687.27
Non-patent technologies	1,668,664.20			1,162,808.12
Trademarks	27,903.24			20,293.24
Others	1,531,918.37			2,653,721.50

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Intangible assets (Continued)

(a) Details of intangible assets (Continued)

For the year ended 31 December 2011, the amortisation of intangible assets amounted to RMB3,975 thousand (for the year ended 31 December 2010: RMB3,742 thousand), which were recognised in profit or loss for the current year.

Land use rights within intangible assets are all located in the PRC with useful life between 10 to 50 years.

(16) Development costs

	31 December 2010	Current year additions	Current year transferred out		31 December 2011
			Recognised in profit or loss in current year	Recognised as intangible assets	
Capitalised expenditures	996,251.69	96,000.00	–	300,000.00	792,251.69
Expensed expenditures	–	88,100,502.40	88,100,502.40	–	–
	<u>996,251.69</u>	<u>88,196,502.40</u>	<u>88,100,502.40</u>	<u>300,000.00</u>	<u>792,251.69</u>

(17) Long-term prepaid expenses

	31 December 2010	Current year additions	Current year amortisation	other reductions	31 December 2011
Building decoration and fixtures	2,844,240.76	495,210.37	836,912.18	–	2,502,538.95
Fixed asset maintenance	688,148.44	71,425.24	349,195.32	–	410,378.36
Stereoscopic shelf and tray of warehouse	396,666.67	–	396,666.67	–	–
Basketball field construction	592,023.65	–	144,985.38	–	447,038.27
Sewage conduit maintenance	152,114.37	–	91,268.61	–	60,845.76
Installation of the product identification code for the packing production line	–	852,991.50	118,471.04	–	734,520.46
Others	2,294,431.80	2,418,091.47	923,174.98	–	3,789,348.29
	<u>6,967,625.69</u>	<u>3,837,718.58</u>	<u>2,860,674.18</u>	<u>–</u>	<u>7,944,670.09</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

	31 December 2011	31 December 2010
Impairment provision of long-term equity investment	115,051.22	115,051.22
Provision for declines in values of inventories	222,196.60	962,782.35
Provision for bad debts	5,399,844.25	6,452,427.33
Impairment provision of fixed assets	710,539.62	771,570.67
Changes in fair value of financial assets held for trading	595,920.70	–
Employee benefits payable	4,280,103.99	5,446,294.75
Provisions	–	1,883,573.30
Other payables	5,536,667.87	4,024,608.10
Other non-current liabilities	5,324,544.64	5,252,988.77
Deductible tax losses	9,021,141.38	10,798,500.00
Effect of elimination	7,068,603.62	5,607,046.36
Provision for impairment of intangible assets	189,016.67	183,259.26
Others	78,453.01	128,987.20
	38,542,083.57	41,627,089.31

(b) Deferred tax liabilities

	31 December 2011	31 December 2010
Other receivables-rental income	1,954,860.86	2,023,879.66
Changes in fair value of financial assets held for trading	–	289,479.17
Changes in fair value of available-for-sale financial assets	1,847,852.04	3,508,856.22
	3,802,712.90	5,822,215.05

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Deferred tax assets and deferred tax liabilities (Continued)

- (c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analyzed as follows:

	31 December 2011	31 December 2010
Deductible temporary differences	57,068,537.34	94,395,737.43
Deductible tax losses	92,714,219.77	100,431,952.84
	149,782,757.11	194,827,690.27

- (d) The tax losses that are not recognised as deferred tax assets will expire in the following years

	31 December 2011	31 December 2010
2011	–	16,178,905.52
2012	28,936,792.24	29,815,128.19
2013	17,746,348.21	18,883,704.58
2014	21,746,131.60	21,993,944.37
2015	13,246,797.36	13,560,270.18
2016	11,038,150.36	–
	92,714,219.77	100,431,952.84

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Deferred tax assets and deferred tax liabilities (Continued)

- (e) The temporary differences on which deferred tax assets are recognised are summarised as follows

	31 December 2011	31 December 2010
Impairment provision of long-term equity investment	460,204.88	460,204.88
Provision for declines in values of inventories	1,287,813.81	4,597,909.53
Provision for bad debts	25,169,591.51	33,210,812.79
Impairment provision of fixed assets	4,694,374.34	5,104,011.16
Changes in fair value of financial assets held for trading	2,383,682.80	–
Employee benefits payable	25,938,026.59	33,573,965.69
Provisions	–	11,342,080.66
Other payables	27,791,122.47	21,162,028.46
Other non-current liabilities	35,496,964.31	35,019,925.15
Deductible tax losses	60,000,565.51	71,990,000.00
Effect of elimination	28,274,414.48	22,428,185.44
Provision for impairment of intangible assets	934,043.28	901,261.57
Others	528,620.81	759,914.67
	212,959,424.79	240,550,300.00

- (f) The temporary differences on which deferred tax liabilities are recognised are summarised as follows

	31 December 2011	31 December 2010
Other receivables-rental income	9,138,026.71	9,633,646.08
Changes in fair value of financial assets held for trading	–	1,157,916.68
Changes in fair value of available-for-sale financial assets	7,694,236.42	14,387,230.96
	16,832,263.13	25,178,793.72

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Provision for asset impairment

	31 December 2010	Current year additions	Current year reductions		31 December 2011
			Reversal	Write-off	
Provision for bad debts	39,892,227.21	2,807,614.88	6,392,236.07	9,839,634.62	26,467,971.40
Provision for declines in value of inventories	6,935,039.45	5,047,744.92	546,258.77	4,896,358.07	6,540,167.53
Impairment provision of long- term equity investments	1,078,551.23	–	–	–	1,078,551.23
Impairment provision of fixed assets	6,446,292.70	–	–	12,054.25	6,434,238.45
Impairment provision of intangible assets	934,043.28	–	–	–	934,043.28
Impairment provision of goodwill	475,756.92	–	–	–	475,756.92
	<u>55,761,910.79</u>	<u>7,855,359.80</u>	<u>6,938,494.84</u>	<u>14,748,046.94</u>	<u>41,930,728.81</u>

(20) Short-term borrowings

	31 December 2011	31 December 2010
Credit loans	32,500,000.00	–
Pledged bank borrowings	32,428,849.42	8,867,878.83
Guaranteed bank borrowings	80,000,000.00	30,000,000.00
	<u>144,928,849.42</u>	<u>38,867,878.83</u>

- (a) As at 31 December 2011 and 31 December 2010, there are no short-term borrowings which are due but have not been repaid.
- (b) As at 31 December 2011 and 31 December 2010, there are no borrowings being mortgaged.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Short-term borrowings (Continued)

- (c) As at 31 December 2011, the pledged bank borrowings are USD borrowings equivalent to RMB27,839 thousand (as at 31 December 2010: 8,868 thousand) and RMB borrowings 4,590 thousand, which are pledged with the deposits of RMB27,839 thousand (as at 31 December 2010: 8,868 thousand) and notes receivable equivalent to RMB5,111 thousand (as at 31 December 2010: nil).
- (d) As at 31 December 2011, the weighted average interest rate of short-term borrowings is 6.8179% per annum (as at 31 December 2010: 4.9371% per annum).

(21) Notes payable

	31 December 2011	31 December 2010
Bank acceptance notes	5,432,012.71	61,326,446.93
Trade acceptance notes	–	15,000,000.00
	5,432,012.71	76,326,446.93

As at 31 December 2011, notes payable amounting to RMB5,432 thousand were expected to be due within 1 year (As at 31 December 2010: RMB76,326 thousand).

(22) Accounts payable

(a) Details of accounts payable

	31 December 2011		31 December 2010	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	343,592,964.13	98.10%	253,787,651.06	96.00%
Over 1 year	6,656,634.15	1.90%	10,587,576.50	4.00%
	350,249,598.28	100.00%	264,375,227.56	100.00%

- (b) As at 31 December 2011, there are no accounts payable to shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2010: nil).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Accounts payable (Continued)

- (c) As at 31 December 2011, the amount of accounts payable to related parties accounted for 3.58% of the total balance (as at 31 December 2010: 5.22%): refer to Note 6 for details.
- (d) As at 31 December 2011, there are no accounts payable that are individually significant whose aging are over 1 year. (31 December 2010: Nil)
- (e) Accounts payable denominated in foreign currency are summarised as follows:

	31 December 2011			31 December 2010		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	1,062,860.78	6.3009	6,696,979.49	1,327,491.77	6.6227	8,791,579.75
HKD	-	0.8107	-	23,021.67	0.8509	19,589.14
EUR	-	9.7116	-	26,442.46	8.8065	232,865.52
			6,696,979.49			9,044,034.41

(23) Advances from customers

- (a) Details of advances from customers

	31 December 2011		31 December 2010	
	Amount	% of total balance	Amount	% of total balance
Aging				
Within 1 year	142,018,448.61	96.66%	96,051,030.07	97.01%
Over 1 year	4,913,345.88	3.34%	2,960,199.76	2.99%
	146,931,794.49	100.00%	99,011,229.83	100.00%

- (b) As at 31 December 2011, the advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company are RMB5 thousand from GPLH (as at 31 December 2010: nil).
- (c) As at 31 December 2011, advances from related parties accounted for 1.75% of the total balance (as at 31 December 2011: 2.96%): refer to Note 6 for details.
- (d) As at 31 December 2011 and 31 December 2010, there are no advances from customers that are individually significant whose aging are over 1 year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Advances from customers (Continued)

(e) Advances from customers denominated in foreign currency are summarised as follows:

	31 December 2011			31 December 2010		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	2,250,214.90	6.3499	14,288,749.26	706,423.14	6.6227	4,678,428.53
HKD	1,998,616.03	0.8152	1,629,351.83	2,291,346.40	0.8509	1,949,706.65
			15,918,101.09			6,628,135.18

(24) Employee benefits payable

	31 December 2010	Current year additions	Current year reductions	31 December 2011
Wages and salaries, bonuses, allowances and subsidies	16,835,282.53	384,266,472.43	377,325,154.74	23,776,600.22
Staff welfare	1,817,012.45	47,470,421.81	48,193,617.74	1,093,816.52
Social insurances	2,783,797.35	120,645,406.23	123,262,645.39	166,558.19
Including:				
Medical insurance	10,154.95	33,570,519.46	33,580,674.41	–
Basic pension insurance	(1,732.15)	60,753,304.01	60,750,512.61	1,059.25
Annuity	2,772,208.08	14,161,804.90	16,771,083.93	162,929.05
Unemployment insurance	2,033.84	6,549,344.61	6,548,808.56	2,569.89
Work injury insurance	(17.24)	2,771,256.34	2,771,239.10	–
Maternity insurance	836.73	2,434,309.94	2,435,146.67	–
Other insurances	313.14	404,866.97	405,180.11	–
Housing funds	(2,485.59)	47,697,629.95	47,475,310.19	219,834.17
Labor union funds and employee education funds	2,707,902.44	9,702,029.24	9,814,372.38	2,595,559.30
Non-monetary welfare	–	662,106.34	662,106.34	–
Compensation for lay-off	–	805,569.85	805,569.85	–
Housing allowance	17,333,807.61	21,801,757.97	21,440,395.88	17,695,169.70
Service fee	10,863,152.03	188,735,752.76	187,748,904.79	11,850,000.00
Staff and workers' bonus and welfare fund	5,796,422.67	–	183,078.00	5,613,344.67
Others	3,123,919.17	(102,536.80)	1,865,107.96	1,156,274.41
	61,258,810.66	821,684,609.78	818,776,263.26	64,167,157.18

As at 31 December 2011, employee benefits payable mainly include the wages and bonus of December 2011 which were accrued but have not been paid. No defaulted payables are included in the employee benefits and the balance is estimated to be paid out and used up in 2012.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Taxes payable

	31 December 2011	31 December 2010
VAT	18,204,107.42	18,484,053.09
Business tax	971,025.52	1,285,015.11
City maintenance and construction tax	1,616,595.95	1,664,342.04
Education surcharge	725,384.42	726,956.22
Local education surcharge	453,628.81	–
Enterprise income tax	8,266,138.96	15,666,704.72
Individual income tax	4,495,715.62	4,993,337.17
Real-estate tax	872,425.96	981,655.31
Urban area embankment maintenance fee	1,799,427.45	1,656,090.45
Others	546,831.55	765,698.30
	37,951,281.66	46,223,852.41

(26) Dividends payable

	31 December 2011	31 December 2010
Investors		
Foreign shares listed out of the PRC(H Shares)	(592.76)	(724.45)
RMB ordinary shares	(4.15)	(4.15)
Minority shareholders	137,037.36	114,468.29
	136,440.45	113,739.69

(27) Other payables

(a) The aging of other payables is analysed as below:

	31 December 2011	31 December 2010
Within 1 year	81,568,404.88	73,748,554.93
Over 1 year	39,975,188.24	55,500,052.15
	121,543,593.12	129,248,607.08

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Other payables (Continued)

(b) Other payables are analysed by categories as follows:

	31 December 2011	31 December 2010
Deposits	26,637,761.90	25,663,220.46
Technology development expenses	–	24,172.24
Rental expenses	377,111.60	380,529.69
Payables to third parties	32,590,770.44	47,404,152.92
Amount due to employees	2,478,847.96	2,602,019.65
Payables to related parties	8,083,724.98	5,542,533.02
Accruals for purchase of fixed assets	2,656,773.05	4,017,194.74
Accruals for purchase of land use rights	2,154,323.40	2,154,323.40
Accrued expenses	40,271,028.34	34,420,595.90
Others	6,293,251.45	7,039,865.06
	121,543,593.12	129,248,607.08

(c) Details of accrued expenses

	31 December 2011	31 December 2010
Interest expenses	334,960.90	49,267.78
Rental expenses	3,475,240.10	1,999,783.32
Agent fees	4,569,850.23	2,910,610.23
Advertising expenses	15,254,273.77	20,389,978.06
Utilities	2,384,517.70	1,482,985.66
Transportation expenses	2,906,341.67	1,744,085.03
Research and development expenses	3,846,302.52	1,406,454.31
Marketing expenses	178,550.00	70,132.00
Travelling expenses	831,079.50	912,429.23
Others	6,489,911.95	3,454,870.28
	40,271,028.34	34,420,595.90

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Other payables (Continued)

- (d) As at 31 December 2011, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB8,080 thousand to GPLH (as at 31 December 2010: RMB5,305 thousand to GPLH).
- (e) As at 31 December 2011, other payables to related parties accounted for 6.65% of the total balance (as at 31 December 2010: 4.29%): refer to Note 6 for details.
- (f) As at 31 December 2011, significant other payables whose aging are over 1 year mainly include accruals for purchase of fixed assets, accruals for purchase of intangible assets, and purchase downpayment.
- (g) As at 31 December 2011, all other payables are denominated in RMB.

(28) Long-term payables

	31 December 2011	31 December 2010
State dividend fund	2,149,157.22	2,149,157.22
State-owned Assets Supervision & Administration Commission of Guangzhou City	934.51	934.51
The Provincial Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
Others	8,887.36	8,887.36
	4,423,405.56	4,423,405.56

(29) Provisions

	31 December 2011	31 December 2010
Transitional medical insurance(a)	-	14,251,694.95
Accruals for loss on return of goods	-	145,162.62
	-	14,396,857.57

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Provisions (Continued)

Transitional medical insurance: Pursuant to Trial measures for basic medical insurance of Guangzhou employees (Decree [2002] No.17 issued by Guangzhou Government) and the Supplementary guidance on paying transitional medical insurance and the relevant issues (Decree [2002] No.14 issued by Guangzhou Labor and Social security Bureau), enterprises in Guangzhou should make contributions in transitional basic medical insurance for retirees or the employees who will retire in the next 10 years from 1 December 2001. As the Group is located in Guangzhou, the Group is obligated to make such contributions into the transitional medical insurance for retirees pursuant to the above-mentioned decrees. It is a present obligation as a result of past transactions or events and it is probable that an outflow of economic benefits will be required to settle the obligation, thus it should be recognised as a liability. As at 31 December 2011, the provision is fully paid.

The factors that affect the best estimate of the transitional medical insurance include: (i) actual increase rate of annual salary, (ii) actual life of retirees, (iii) effective discount rate.

(30) Other non-current liabilities

	31 December 2011	31 December 2010
Government grants related to assets:		
Technology funds granted by government	12,105,527.76	12,768,037.73
Relocation compensation	5,445,449.38	6,641,912.52
Government discount	2,096,419.95	2,168,286.87
Sewage disposal system project	1,157,862.50	1,085,937.50
Specific funds for Xiaoke Wan online supervision project	866,666.68	1,000,000.00
Others	2,491,415.87	2,223,584.66
	24,163,342.14	25,887,759.28
Government grants related to income:		
Technology funds granted by government	49,626,337.41	68,903,760.76
Specific funds for development of technology exports	173,232.06	201,392.06
Others	2,564,073.40	1,290,225.89
	52,363,642.87	70,395,378.71
	76,526,985.01	96,283,137.99

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Share capital

	31 December 2010		Current year addition (+)/reduction(-)					31 December 2011	
	Amount	% of the total balance	Issued shares	Shares dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading-									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	-	-	-	-	-	-	-
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading-subtotal	-	-	-	-	-	-	-	-	-
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	-	-	-	-	-	591,000,000.00	72.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	27.12
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00
Share capital total	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Share capital (Continued)

	31 December 2009		Current year addition (+)/reduction(-)					31 December 2010	
	Amount	% of the total balance	Issued shares	Shares dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading-									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	-	-	-	-	-	-	-
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading-subtotal	-	-	-	-	-	-	-	-	-
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	-	-	-	-	-	591,000,000.00	72.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	27.12
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00
Share capital total	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Capital surplus

	31 December 2010	Current year additions	Current year reductions	31 December 2011
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	238,713,351.77	499,816.16	5,203,219.43	234,009,948.50
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,152,720,122.24</u>	<u>499,816.16</u>	<u>5,203,219.43</u>	<u>1,148,016,718.97</u>

	31 December 2009	Previous period additions	Previous period reductions	31 December 2010
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	230,075,848.81	10,610,507.84	1,973,004.88	238,713,351.77
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,144,082,619.28</u>	<u>10,610,507.84</u>	<u>1,973,004.88</u>	<u>1,152,720,122.24</u>

The fluctuation of the other capital surplus in current year was due to:

- (a) The decrease of capital surplus amounted to RMB5,043 thousand is due to the net changes in fair value of available-for-sale financial assets held by the Group, which include the decrease of RMB4,901 thousand due to the decline in the price of the A-share of China Everbright Bank Company Limited held by the Group and the increase of RMB142 thousand due to the increase in the price of the A-share of Bank of Communications held by the Group.
- (b) As the capital surplus of a jointly controlled entity Guangzhou Pharmaceuticals Corporation decreased in the current year, the Group recognised the decrease in capital surplus amounted to RMB160 thousand based on its share of interest in Guangzhou Pharmaceuticals Corporation.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) Surplus reserve

	31 December 2010	Current year addition	Current year reduction	31 December 2011
Statutory surplus reserve	459,116,543.12	24,853,514.85	–	483,970,057.97
Discretionary surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>578,042,160.61</u>	<u>24,853,514.85</u>	<u>–</u>	<u>602,895,675.46</u>

	31 December 2009	Previous period additions	Previous period reductions	31 December 2010
Statutory surplus reserve	437,683,559.57	21,454,433.65	21,450.10	459,116,543.12
Discretionary surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>556,609,177.06</u>	<u>21,454,433.65</u>	<u>21,450.10</u>	<u>578,042,160.61</u>

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

The appropriation of discretionary surplus reserve should be proposed by the Board of Directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(34) Undistributed profits

	Year ended 31 December 2011	Year ended 31 December 2010
Undistributed profits at the beginning of the year (before adjustments)	997,707,102.24	792,594,656.13
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	–	–
Undistributed profits at the beginning of the year (after adjustments)	997,707,102.24	792,594,656.13
Add: Net profit for the current year	287,530,980.07	267,111,879.76
Less: Appropriation for statutory surplus reserve	24,853,514.85	21,454,433.65
Less: Ordinary shares dividend payable	40,545,000.00	40,545,000.00
Undistributed profits at the end of the period	<u>1,219,839,567.46</u>	<u>997,707,102.24</u>

- (a) As at 31 December 2011, surplus reserves of the Company's subsidiaries amounting to RMB90,807 thousand is included in undistributed profits (as at 31 December 2010: RMB66,321 thousand).
- (a) In accordance with the resolution at the Annual General Meeting held on 21 June 2011, the Company proposed a cash dividend of RMB0.05 per share to shareholders of the Company, amounting to RMB40,545 thousand in total based on the number of shares issued amounting to 810,900,000.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Minority interest

Investees	Investment relationship with the Company	31 December 2011	31 December 2010
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Holding Subsidiary	13,031,551.58	11,768,522.37
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Holding Subsidiary	385,522.60	379,701.84
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Holding Subsidiary	18,338,888.80	17,448,823.00
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	Holding Subsidiary	25,450,989.94	24,052,554.99
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Holding Subsidiary	707,176.16	610,401.47
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Holding Subsidiary	15,748,129.29	15,136,449.59
Guangzhou Qi Xing Pharmaceutical Co., Ltd.	Indirect holding subsidiary	38,142,447.53	32,217,092.03
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect holding subsidiary	191,482.17	75,583.37
Guangzhou Pan Gao Shou Natural Health Products Co., Ltd.	Indirect holding subsidiary	623,867.61	481,655.84
Xizang Lin Zhi Guang Yang Development Co., Ltd. (*)	Indirect holding subsidiary	900,000.00	–
		113,520,055.68	102,170,784.50

(36) Revenue and cost of sales

	Year ended 31 December 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

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Revenue and cost of sales (Continued)

Year ended 31 December 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

(a) Revenue cost of main operation by natures are summarised by business as follows:

	Revenue of main operation		Cost of main operation	
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
Manufacture	2,534,759,871.46	2,188,600,144.71	1,402,835,857.13	1,141,423,505.33
Pharmaceutical trading	2,049,749,671.91	1,706,025,024.47	1,871,802,559.65	1,543,597,924.43
Other trading	760,648,411.45	508,472,764.86	751,667,115.08	503,551,468.58
	5,345,157,954.82	4,403,097,934.04	4,026,305,531.86	3,188,572,898.34

(b) Revenue and cost of main operation by regions are summarised as follows:

	Revenue of main operation		Cost of main operation	
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
Southern China	3,761,626,123.97	3,061,185,667.26	2,920,618,972.40	2,324,568,433.46
Eastern China	544,469,385.31	480,559,013.12	396,325,257.24	311,264,972.09
Northern China	363,119,945.64	286,472,218.64	202,428,502.22	140,340,837.49
Northeastern China	104,059,218.83	73,264,227.18	61,141,622.35	33,831,969.70
Southwestern China	240,008,358.27	263,425,775.70	167,228,213.52	193,287,717.94
Northwestern China	105,573,540.82	92,818,463.34	58,935,404.85	47,554,210.45
Other countries	226,301,381.98	145,372,568.80	219,627,559.28	137,724,757.21
	5,345,157,954.82	4,403,097,934.04	4,026,305,531.86	3,188,572,898.34

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Revenue and cost of sales (Continued)

- (c) Top five of the revenue of the Group amounted to RMB1,007,043 thousand in total (for the year ended 31 December 2010: RMB717,784 thousand), which accounts for 18.84% of the total revenue of the Group (for the year ended 31 December 2010: 16.31%).

	Revenue of the main operation	Percentage of the total revenue of the main operation of the group
Dongguan Ye Lian Highway Asphalt Co.,Ltd	351,601,745.94	6.58%
Guangzhou Pharmaceuticals Corporation	265,850,039.72	4.97%
Guangzhou De Feng Hang Petrochemical Co., Ltd.	167,275,233.32	3.13%
Guangdong Wei Kang Pharmaceutical Co., Ltd.	119,147,514.08	2.23%
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co.,Ltd.	103,168,537.83	1.93%
	<u>1,007,043,070.89</u>	<u>18.84%</u>

- (d) Revenue from other operation

	Year ended 31 December 2011	Year ended 31 December 2010
Leases of assets	57,002,184.05	54,129,925.70
Sales of materials	1,270,494.35	1,535,838.56
Franchise management fee income	198,500.00	212,500.00
License fee income	17,265,921.24	13,860,227.25
Consulting fee income	723,371.00	801,444.05
Agency fee income	459,624.79	-
Medicine slotting fee income	576,445.50	708,019.00
Others	16,957,122.71	11,721,440.03
	<u>94,453,663.64</u>	<u>82,969,394.59</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Revenue and cost of sales (Continued)

(e) Cost of other operation

	Year ended 31 December 2011	Year ended 31 December 2010
Depreciation of assets leased out	8,339,064.66	7,983,900.30
Cost of materials sold	518,487.07	3,401,234.14
Technical service fee	2,561,550.18	2,173,404.67
Others	5,027,201.17	3,677,119.46
	16,446,303.08	17,235,658.57

(37) Taxes and surcharges

	Year ended 31 December 2011	Year ended 31 December 2010
Business tax	5,670,896.86	4,659,585.67
City maintenance and construction tax	19,321,983.61	14,581,874.65
Education surcharge	8,330,372.36	6,317,433.75
Local education surcharge	5,564,161.75	–
Housing Real-estate tax	5,155,343.27	4,610,487.82
	44,042,757.85	30,169,381.89

Basis of calculation: refer to Note 3.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Selling and distribution expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Employee benefit expenses	316,945,471.53	253,653,164.56
Sales service fees	31,788,349.03	29,509,169.26
Travelling expenses	30,468,575.30	27,779,005.46
Entertainment expenses	8,445,109.41	7,212,396.88
Office expenses	7,689,041.21	7,219,240.74
Transportation expenses	47,304,648.35	40,225,163.24
Rental expenses	10,220,099.49	10,455,034.68
Conference expenses	27,064,748.41	29,029,828.20
Insurance fees	321,060.99	261,670.78
Advertising and promotion fees	198,949,778.61	190,327,803.69
Consulting fees	13,788,081.51	9,930,681.10
Depreciation fees	2,512,835.50	1,894,026.37
Others	15,335,674.32	9,818,217.06
	710,833,473.66	617,315,402.02

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) General and administrative expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Employee benefit expenses	232,373,673.18	227,585,310.99
Property management expenses	499,275.70	1,060,966.22
Insurance fees	931,484.01	892,833.18
Depreciation charges	28,776,780.33	29,980,550.94
Utilities	4,968,462.91	4,471,978.46
Administrative expenses	9,387,928.27	9,685,045.65
Travelling expenses	4,683,754.58	4,036,599.24
Transportation expenses	12,395,342.92	12,175,915.77
Entertainment expenses	8,455,366.35	9,583,740.82
Repairing expenses	4,543,952.36	7,098,425.41
Rental expenses	9,013,358.57	10,599,546.76
Conference expenses	3,518,420.11	3,476,300.19
Research and development expenses	91,126,620.76	71,617,213.12
Taxation charges	19,596,918.85	18,037,011.99
Amortisation charges	8,681,943.62	9,219,727.73
Professional service fees	8,829,011.50	6,786,311.16
Including: auditor's emolument	1,430,000.00	3,700,000.00
Consulting fees	2,626,240.37	3,951,741.31
License fees	7,411,787.12	4,218,203.31
Others	22,711,678.21	22,930,452.67
	480,531,999.72	457,407,874.92

(40) Financial expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Interest expenses	4,285,360.95	1,544,211.30
Discount interest expenses of notes	1,539,265.72	448,978.92
Interest income	(6,592,248.35)	(7,120,699.23)
Exchange losses/(gains)	261,561.44	(130,333.73)
Bank charges	2,018,987.71	1,735,179.39
Cash discounts	92,664.00	173,323.59
Others	247,487.48	1,152,940.43
	1,853,078.95	(2,196,399.33)

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Financial expenses (Continued)

For the year ended 31 December 2011 and 2010, all interest expenses belong to borrowings which loan repayment dates are within 5 years.

(41) Asset impairment losses

	Year ended 31 December 2011	Year ended 31 December 2010
Provision for bad debts	(3,584,621.19)	(5,781,981.89)
Declines in values of inventories	4,501,486.15	2,018,230.66
	916,864.96	(3,763,751.23)

(42) Profit arising from changes in fair value

	Year ended 31 December 2011	Year ended 31 December 2010
(Loss)/Profit arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	(639,378.60)	424,903.50
(Loss)/Profit arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(2,902,220.92)	912,438.60
	(3,541,599.52)	1,337,342.10

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Investment income

(a) Investment income details

	Year ended 31 December 2011	Year ended 31 December 2010
Investment income from financial assets:		
Income from financial assets held for trading	517,943.24	1,212,848.93
Income from available-for-sale financial assets	578,090.46	379,000.86
Income from entrusted loans	(653,775.68)	(512,256.39)
	<u>442,258.02</u>	<u>1,079,593.40</u>
Income from long-term equity investment:		
Income from long-term equity investment under cost method	-	-
Income from long-term equity investment under equity method	153,343,410.54	109,439,670.78
Income from disposal of long-term equity investments	-	4,833,412.73
	<u>153,343,410.54</u>	<u>114,273,083.51</u>
	<u>153,785,668.56</u>	<u>115,352,676.91</u>

(b) Details of investment income from long-term equity investments under equity method are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Guangzhou Pharmaceuticals Corporation	67,258,147.53	60,292,086.66
Grangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	68,492,353.44	50,891,729.91
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	17,350,997.07	3,898,941.01
Golden Eagle Fund Management Co., Ltd	230,974.87	(5,637,811.57)
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	10,937.63	13,480.39
Guangzhou Jinshen Medical Co.,Ltd	-	(18,755.62)
	<u>153,343,410.54</u>	<u>109,439,670.78</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Non-operating income

	Year ended 31 December 2011	Year ended 31 December 2010
Gain on disposal of non-current assets	299,476.54	8,403,858.75
Including: gain on disposal of fixed assets	299,476.54	6,496,058.25
Government grants	25,357,934.69	25,792,131.98
Penalty income	541,855.68	19,661.67
Sales of scraps	269,721.51	437,940.35
Waived liabilities	3,509,007.44	1,688,136.72
Others	3,392,705.33	2,249,327.98
	33,370,701.19	38,591,057.45

Details of government grants:

	Year ended 31 December 2011	Year ended 31 December 2010
Government grants related to assets:		
Technology funds granted by government	1,162,509.97	859,212.82
Compensation for relocation	1,196,463.14	–
Government subsidies for interests	71,866.92	79,485.97
Sewage disposal system project	100,875.00	100,875.00
Specific funds for company development	305,555.45	533,333.35
Others	339,946.66	897,792.70
	3,177,217.14	2,470,699.84
Government grants related to income:		
Technology funds granted by government	20,800,145.88	17,015,849.02
Government subsidies for interests	–	500,000.00
Specific funds for technology exports development	28,160.00	90,000.00
Others	1,352,411.67	5,715,583.12
	22,180,717.55	23,321,432.14
	25,357,934.69	25,792,131.98

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(45) Non-operating expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Loss on disposal of non-current assets	1,333,448.86	9,497,258.02
Including: Loss on disposal of fixed assets	1,333,448.86	9,497,258.02
Public welfare donations	5,196,518.73	3,069,499.61
Penalty and overdue fines	258,781.06	1,673,542.64
Others	514,621.21	1,025,887.61
	7,303,369.86	15,266,187.88

(46) Income tax expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax	32,269,642.36	41,491,049.15
Deferred income tax	2,726,507.78	5,818,632.34
	34,996,150.14	47,309,681.49

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:

	Year ended 31 December 2011	Year ended 31 December 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	34,996,150.14	47,309,681.49

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(47) Earnings per share

(a) Basic earnings per share

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

	Year ended 31 December 2011	Year ended 31 December 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:	810,900,000.00	810,900,000.00
Basic earnings per share	0.355	0.329

(b) Diluted earnings per share

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

(48) Other comprehensive income

	Year ended 31 December 2011	Year ended 31 December 2010
(Losses)/Gains arising from available-for-sale financial assets	(6,707,388.52)	12,244,846.16
Less: Income tax effect arising from available-for-sale financial assets	(1,661,004.18)	3,146,992.55
	(5,046,384.34)	9,097,853.61
Recognition of share of other comprehensive income of the investee based on equity method	(160,362.04)	(34,522.06)
	(5,206,746.38)	9,063,331.55

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	Year ended 31 December 2011	Year ended 31 December 2010
Non-operating income	3,600,010.64	2,604,458.27
Other operation income	95,923,824.78	85,293,321.49
Government grants	7,805,953.59	44,786,409.27
Interest income	6,592,248.35	7,120,699.23
Others	2,800,000.00	–
	116,722,037.36	139,804,888.26

(b) Cash paid relating to other operating activities

	Year ended 31 December 2011	Year ended 31 December 2010
Cash payments of selling and distribution expenses	351,622,013.37	295,879,282.33
Cash payments of general and administrative expenses	143,456,672.25	151,329,278.20
Financial expenses-bank charges	2,018,987.71	1,733,888.47
Others	13,142,197.86	13,252,940.48
	510,239,871.19	462,195,389.48

(c) Cash received relating to other investing activities

	Year ended 31 December 2011	Year ended 31 December 2010
Cash received from repayment of deposits for forward contracts	11,747,283.92	28,369,822.21
Cash received from liquidation of Nanfang Securities Co., Ltd	1,317,784.35	531,364.66
Interest received from securities accounts	3,109.87	–
Other	–	17,064.34
	13,068,178.14	28,918,251.21

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(49) Notes to the consolidated cash flow statement *(Continued)*

(d) Cash paid relating to other investing activities

	Year ended 31 December 2011	Year ended 31 December 2010
Tax expenses arising from the interest income of entrusted loans	376,133.32	418,566.32
Business tax arising from disposal of Nanzhou Road Dormitory	–	3,122,961.40
Deposits for forward contract	30,718,254.51	8,867,878.83
	31,094,387.83	12,409,406.55

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(i) Reconciliation of net profit to cash flow operating activities

	Year ended 31 December 2011	Year ended 31 December 2010
Net profit	299,996,858.61	274,031,470.54
Add: Provision for assets impairment	916,864.96	(3,763,751.23)
Depreciation of fixed assets, and depreciation and amortisation of Investment properties	103,749,472.40	105,788,201.98
Amortisation of intangible assets	3,975,029.88	3,741,739.60
Amortisation of long-term prepaid expenses	2,860,674.18	3,215,740.05
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	(224,557.90)	403,598.39
Loss on scrapping of fixed assets	1,258,530.22	689,800.88
Loss (less: gain) on changes in fair value	3,541,599.52	(1,337,342.10)
Financial expenses	6,333,675.59	3,017,087.84
Investment gain	(153,785,668.56)	(115,352,676.91)
Decrease in deferred tax assets	3,085,005.74	5,450,047.46
Increase/(less: decrease) in deferred tax liabilities	(358,497.97)	368,584.89
Increase in inventories	(103,555,380.30)	(189,218,366.34)
Increase of operating receivables	(348,045,014.96)	(44,989,808.70)
Increase of operating payables	198,583.85	31,174,032.31
	<hr/>	<hr/>
Net cash flows from operating activities	(180,052,824.74)	73,218,358.66

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(50) Supplementary information of cash flow statements (Continued)

(a) Supplementary information of cash flow statements (Continued)

(ii) Investing and financing activities that do not involve cash receipts and payments

	Year ended 31 December 2011	Year ended 31 December 2010
Conversion of debt into capital Convertible company bonds due within one year	–	–
Fixed assets held under finance leases	–	–

(iii) Net movement in cash and cash equivalents

	Year ended 31 December 2011	Year ended 31 December 2010
Cash at the end of period	355,748,504.33	696,347,134.34
Less: cash at the beginning of year	696,347,134.34	667,385,437.68
Add: cash equivalents at end of the period	–	–
Less: cash equivalents at beginning of the year	–	–
Net movement in cash and cash equivalents	(340,598,630.01)	28,961,696.66

The cash and cash equivalents do not include deposits for forward contract of RMB27,839 thousand and housing fund amounting to RMB548 thousand.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5. NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Supplementary information of cash flow statements (Continued)

(b) Details of cash and cash equivalents

	31 December 2011	31 December 2010
Cash	355,748,504.33	696,347,134.34
Including: Cash on hand	1,235,960.30	1,238,135.40
Bank deposits that are readily available for payment	352,300,211.46	690,048,172.39
Other cash that are readily available for payment	2,212,332.57	5,060,826.55
Cash equivalents	—	—
Total cash and cash equivalents	355,748,504.33	696,347,134.34

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) General information of the parent company:

Name of the Parent company	Relationship	Business Type	Registration place	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Ultimate holding company	Organization code
GPHL	Parent Company	Limited liability company	No. 45 North Street, Shamian, Guangzhou	Yang Rongming	Manufacturing and trading	125,281	48.20%	48.20%	Guangzhou State-owned Assets Supervision and Administration Commission	2312473

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(1) General information of the parent company: *(Continued)*

Registered capital and changes in registered capital of the parent company:

	31 December 2010 and 31 December 2011
	(RMB'0000)
GPHL	125,281

The percentage of equity interests and voting rights held by the parent company in the Company

	31 December 2010 and 31 December 2011	
	% equity interest held	% voting rights held
GPHL	48.20%	48.20%

(2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 4.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(3) Information of Jointly controlled entities and Associates

Name of related party	Business Type	Registration address	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Code of Organization
1. Jointly controlled entities								
Guangzhou Pharmaceuticals Corporation	Sino-foreign joint venture	Guangzhou	FRITZ HORLACHER	Trading of medicine and medical apparatus	70,000	50.00%	50.00%	73296653-X
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd	Sino-foreign joint venture	Guangzhou	Wang Jianyi	Manufacturing of Chinese Medicine	20,476	48.05%	48.05%	19047976-0
Guangzhou Nuo Cheng Bio-tech Co., Ltd.	Limited Liability Company	Guangzhou	Zhou Lijian	Research, development and industrialisation of human vaccine	8,400	49.24%	50.00%	78608627-1
2. Associates								
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Technological development service	100	44.00%	44.00%	73843530-X
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	74448348-X
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health products, Chinese medicine and food	200	38.25%	38.25%	751974324
Shanghai Jiuhetang Chinese Medicine Co., Ltd.	Limited Liability Company	Shanghai	Fang Liang	Wholesales of medicine	190	25.76%	27.26%	13281474-3

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(4) Information of other related parties that do not control or are controlled by the Group

Name of entity	Relationship with the Group	Organization code
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Controlled by the same parent company	190481270
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	19046020X
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	190485108
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	190485116
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789X
Guangzhou Pharmaceutical Real Estate Industry Co., Ltd.	Controlled by the same parent company	231225792
Polian Development Co., Ltd.	Controlled by the same parent company	Not applicable
Guangzhou Pharmaceutical Industrial Research Institute	Controlled by the same parent company	455347297
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Jointly controlled entity of the same ultimate company	773303038
Guangzhou Baiyunshan Enterprise Group Co., Ltd.	Controlled by the same parent company	190441420
Guangzhou Pharmaceutical Trading Center	Controlled by the same parent company	190503994
Guangzhou Pharmaceutical Supply Company	Controlled by the same parent company	190439590
Guangzhou Pharmaceutical Economic Development Company	Controlled by the same parent company	190492367
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	618223177
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Controlled by the same ultimate holding company	721974948
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Jointly controlled entity of the same ultimate company	661806271
Nanyang Baiyunshan Hutchison Whampoa Guangbao Pharmaceutical Co., Ltd.	Jointly controlled entity of the same ultimate company	57763953-8

(5) Related party transactions

- (a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(b) Purchases of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	Year ended 31 December 2011		Year ended 31 December 2010	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	107,554,494.13	2.36	66,297,572.26	2.01
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	403,358.84	0.01	767,244.63	0.02
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	241,448.65	0.01	242,550.55	0.01
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	108,194,752.13	2.38	62,524,651.82	1.89
Polian Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	79,045,507.33	1.74	79,175,848.95	2.41
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Purchase of goods	Chinese raw medicine or medicine	Market price	1,551,207.81	0.03	648,074.93	0.02
Guangzhou Pharmaceuticals Corporation	Purchase of goods	Chinese raw medicine or medicine	Market price	65,159,110.00	1.43	68,724,441.53	2.08
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	3,915,625.56	0.09	2,700,744.38	0.08
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	213,187.95	0.00	399,851.63	0.01
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	-	-	29,538.46	0.00
				366,278,692.40	8.05	281,510,519.14	8.53

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(c) Sales of goods to related parties (Continued)

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	Year ended 31 December 2011		Year ended 31 December 2010	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	228,815.35	0.00	94,592.79	0.00
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	36,959,381.11	0.69	48,064,734.78	1.09
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	44,540,011.40	0.83	44,331,329.11	1.01
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	2,883,291.95	0.05	2,617,824.90	0.06
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	103,168,537.83	1.93	86,320,916.13	1.96
Polian Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	1,797,150.81	0.03	1,415,752.59	0.03
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	12,831.87	0.00	1,463,589.74	0.03
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	31,634,959.79	0.59	32,569,941.83	0.74
Guangzhou Pharmaceuticals Corporation	Sales of goods	Chinese raw medicine or medicine	Market price	265,850,039.72	4.99	177,875,782.83	4.04
Guangzhou Wang Lao Ji Pharmaceutical Cp., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	50,070,108.79	0.94	48,268,202.28	1.10
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	3,820,172.65	0.07	-	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	12,230.77	0.00	20,830.76	0.00
Nanyang Baiyunshan Hutchison Whampoa Guangbao Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	3,050,111.15	0.06	-	-
				544,027,643.19	10.18	443,043,497.74	10.06

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions

- (i) Guarantees for related parties: details please refer to Note 7.
- (ii) Leases
 - 1) Tenancy Agreements

Pursuant to a Tenancy Agreement entered into by the Company and GPLH, GPLH has granted to the Group the right to use certain premises such as warehouses and offices for a term at a fixed annual rent. The agreement was expired on 31 December 2010. The Tenancy Agreement was renewed by the Company and GPLH on 27 August 2010 and the renewed Tenancy Agreement will be expired on 31 December 2013. The Group should pay GPLH RMB1,248 thousand of the above-mentioned for the current year (for the year ended 31 December 2010: RMB1,132 thousand), details please refer to the below table:

Name of Lessor	Name of lessee	Condition of lease assets	Amount related to the lease assets (RMB'000)
GPHL	Guangzhou Zhong Yi Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	19
GPHL	Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	Assets in good condition, for lessee's operation use	203
GPHL	Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Assets in good condition, for lessee's operation use	193
GPHL	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	19
GPHL	Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	20
GPHL	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	794
			1,248

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(ii) Leases *(Continued)*

- 2) The Office Tenancy Agreement-Second Floor in front stalls and back stalls of GPHL located at No. 45 North Shamian Street

Pursuant to the Office Tenancy Agreement entered into by the Company and GPHL on 1 November 2007, the Company rents the second floor in front stalls of GPHL located at No. 45 North Street Shamian at a fixed annual rent (which is subject to the adjustment of standard rent as prescribed by Guangzhou Real Estate Administration Bureau). The Office Tenancy Agreement was expired on 31 August 2010. The Office Tenancy Agreement was renewed by the Company and GPHL on 27 August 2010 and the renewed Office Tenancy Agreement will be expired on 31 August 2013. The lease term is from 1 September 2010 to 31 August 2013.

Pursuant to the Tenancy Agreement entered into by the Company and GPHL on 28 August 1998, GPHL agreed to build a new office building and has granted to the Group the right to use certain premises as the office building (back stalls of GPHL located at No.45 North Shamian Street). The rent is discounted at 38% of the standard rent as prescribed by Guangzhou Real Estate Administration Bureau on the date when the Official Tenancy Agreement is signed. Since GPHL needed capital to enlarge the new office building, the Company agreed to pay RMB6,000 thousand in advance in 180 days after the Tenancy Agreement was signed. GPHL promised to use the advances only for new office buildings as well as agreed to offset the rent with the advances.

Pursuant to the Office Tenancy Agreement entered into by the Company and GPHL on 6 February 2004, the company rented the back stalls of GPHL located at No.45 North Shamian Street, the lease term is up to the date when the advances for rentals is completely offset. As at 31 December 2011, the ending balance of the advances for rentals is RMB1,032 thousand (as at 31 December 2010, the ending balance of the rent is RMB1,584 thousand).

The Company should pay GPHL RMB1,093 thousand regarding this leasing contract for the current year (for the year ended 31 December 2010: RMB1,094 thousand).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement

Pursuant to the Trademark License Agreement entered into by the Group and GPLH on 1 September 1997, GPLH has granted the Group an exclusive right to use 38 trademarks owned by GPLH for a term of 10 years since the License Agreement was signed. The Group agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Group. The License Agreement was expired on 1 September 2007. GPLH issued Letter of Commitment for Extension of Usage Term of Trademarks granted to Guangzhou Pharmaceutical Company Limited on 21 November 2000: The License Agreement will be renewed for a term of 10 years automatically after the above-mentioned Trademarks License Agreement expires. The Group should pay GPLH RMB7,412 thousand of trademarks license fee for the current year (for the year ended 31 December 2010: RMB4,218 thousand).

Pursuant to the Trademark License Supplementary Agreement entered into by Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. and GPLH on 28 July 2005, Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. agreed to pay a license fee to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. become to be a foreign-invested company limited. GPLH is entitled by 53% of the license fee from Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. while the Company by 47% of that. The Company should receive RMB17,266 thousand of the license fee from Wang Lao Ji Pharmaceutical Co. Ltd. for the current year (for the year ended 31 December 2010: RMB13,860 thousand).

(iv) Employee residence service fee

	Name of entity	Year ended 31 December 2011 (RMB'000)	Year ended 31 December 2010 (RMB'000)
Employee residence service fee	GPLH	353	338

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iv) Employee residence service fee *(Continued)*

Pursuant to the employee residence service contract entered into by GPLH and the Group on 1 September 1997, as well as the supplementary notice issued on 31 December 1997, GPLH agreed to continue to provide residence for employees. The residence service fee is charged at 6% of carrying amount of the employee residence. The employee residence service contract was renewed on 27 August 2010 and the renewed residence service contract will be expired on 31 December 2013.

(v) Transfer of Research and Development projects

		Year ended 31 December 2011 (RMB'000)	Year ended 31 December 2010 (RMB'000)
Technical Advisory	Guangzhou Pharmaceutical Industrial Research Institute	200	–
Preclinical ago Toxicology Research on Qing Re Tong Fu	Guangzhou Pharmaceutical Industrial Research Institute	260	–
Efficacy trials on Wei Nai An	Guangzhou Pharmaceutical Industrial Research Institute	–	60
		460	60

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Other related party transactions (Continued)

(vi) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB2,595 thousand for the year of 2011 (for the year ended 31 December 2010: RMB2,170 thousand). The Group's key management personnel include directors, supervisors, general manager, vice general manager, financial controller and secretary to the Board of Director ("BOD"). The key management include 15 persons for the year of 2011 (for the year ended 31 December 2010: 17 persons), among which 12 persons received their salaries from the Group (for the year ended 31 December 2010: 13 persons).

(e) Directors and supervisors' emoluments

Directors and supervisors' emoluments for the year ended 31 December 2011 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefits	Others	Total
Director's name:								
Yang Rongming	-	-	-	-	-	-	-	-
Li Chuyuan	-	-	-	-	-	-	-	-
Shi Shaobin	-	-	-	20,078.00	-	-	-	20,078.00
Wu Changhai	-	451,836.00	-	300,740.00	-	-	-	752,576.00
Liu Jinxiang	80,000.00	-	-	-	-	-	-	80,000.00
Li Shanmin	80,000.00	-	-	-	-	-	-	80,000.00
Zhang Yonghua	80,000.00	-	-	-	-	-	-	80,000.00
Wong Lung Tak Patrick	80,000.00	-	-	-	-	-	-	80,000.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Supervisor's name:								
Yang Xiuwei	-	-	-	-	-	-	-	-
Wu Quan	-	101,280.00	-	105,810.00	-	-	-	207,090.00
Zhong Yugan	30,000.00	-	-	-	-	-	-	30,000.00

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Directors and supervisors' emoluments (Continued)

Directors and supervisors' emoluments for the year ended 31 December 2010 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefits	Others	Total
Director's name:								
Yang Rongming	-	-	-	-	-	-	-	-
Li Chuyuan	-	-	-	-	-	-	-	-
Shi Shaobin	-	203,804.00	-	122,652.00	-	-	-	326,456.00
Wu Changhai	-	198,787.00	-	-	-	-	-	198,787.00
Feng Zansheng	-	-	-	-	-	-	-	-
Wong Hin Wing	40,000.00	-	-	-	-	-	-	40,000.00
Liu Jinxiang	80,000.00	-	-	-	-	-	-	80,000.00
Li Shanmin	80,000.00	-	-	-	-	-	-	80,000.00
Zhang Yonghua	80,000.00	-	-	-	-	-	-	80,000.00
Wong Lung Tak Patrick	40,000.00	-	-	-	-	-	-	40,000.00
Qiu Hongzhong	40,000.00	-	-	-	-	-	-	40,000.00
Supervisor's name:								
Yang Xiuwei	-	-	-	-	-	-	-	-
Wu Quan	-	284,945.00	-	124,916.00	-	-	-	409,861.00
Zhong Yugan	30,000.00	-	-	-	-	-	-	30,000.00

In addition to the directors' and supervisors' emoluments disclosed above, director Yang Rongming, Li Chuyuan, Shi Shaobin and supervisor Yang Xiuwei received emoluments from the Company's holding company, amounting to RMB729,641.00, RMB656,075.00, RMB600,943.00 and RMB627,554.00 (for the year ended 31 December 2010: RMB760,551.00, RMB708,575.00, RMB207,176.00 and RMB661,548.00); Director Feng Zansheng received emoluments from the Company's jointly controlled entity, amounting to RMB633,368.00), part of which are in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to the Group and their services to the Company's holding company and jointly controlled entities.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(f) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (for the year ended 31 December 2010: one director and one supervisor) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 (for the year ended 31 December 2010: 3) individuals during the year are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Basic salaries, bonus, housing allowance, other allowances in kind	1,986,754.00	1,096,539.00
Emolument bands: RMB0 – 1,000,000	4	3

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(g) Receivables from and payables to related parties

(i) Receivables from related parties

		31 December 2011		31 December 2010	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
	Related Parties				
Notes					
receivable	Guangzhou Pharmaceuticals Corporation	22,751,108.25	-	-	-
Accounts					
receivable:	GPHL	7,124.70	71.25	14,100.00	141.00
	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	5,012,293.48	50,122.93	6,051,383.83	60,513.84
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	1,504,714.36	15,047.14	2,030,947.14	20,309.47
	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	80,000.00	800.00	-	-
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	6,481,029.05	64,810.29	5,844,510.26	58,445.10
	Polian Development Co., Ltd.	294,054.15	2,940.54	172,566.92	1,725.67
	Guangzhou Pharmaceutical Industrial Research Institute	-	-	66,500.00	665.00
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	892,038.91	8,920.39	1,391,193.51	13,911.94
	Guangzhou Pharmaceuticals Corporation	9,161,542.02	91,615.42	8,440,046.26	84,400.46
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	3,774,043.72	37,740.44	6,329,891.26	63,298.91
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	381,850.00	3,818.50	-	-
	Nanyang Baiyunshan Hutchison Whampoa Guangbao Pharmaceutical Co., Ltd.	1,226,245.90	12,262.46	-	-
		28,814,936.29	288,149.36	30,341,139.18	303,411.39

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(g) Receivables from and payables to related parties *(Continued)*

(i) Receivables from related parties *(Continued)*

	31 December 2011		31 December 2010	
	Ending balance	Provision	Ending balance	Provision
Other				
receivables: GPL	1,286,918.80	-	1,747,718.80	-
Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
Guangzhou Pharmaceuticals Corporation	-	-	3,200.00	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	1,414,804.36	-	391,201.53	-
	2,801,723.16	100,000.00	2,242,120.33	100,000.00
Advances to				
suppliers: Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	1,111.00	-	4,476,600.68	-
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	52,200.00	-	-	-
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	918.00	-	5,969,944.76	-
Guangzhou Pharmaceuticals Corporation	1,532,092.27	-	85,127.45	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	103,346.80	-	29,129.92	-
	1,689,668.07	-	10,560,802.81	-

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(g) Receivables from and payables to related parties (Continued)

(ii) Payables to related parties

	31 December 2011	31 December 2010
Related Parties		
Notes		
Payable: Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	–	8,168,000.00
Accounts		
Payable: Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	2,909,311.29	4,025,520.07
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	5,672.65	82,547.17
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	18,409.56	16,381.18
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	989,854.60	198,855.24
Polian Development Co., Ltd.	5,775,799.52	7,553,847.48
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co.,Ltd.	37,661.54	–
Guangzhou Pharmaceuticals Corporation	2,787,296.76	1,886,424.07
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	–	34,560.00
	12,524,005.92	13,798,135.21
Other Payables: GPLL	8,079,872.29	5,305,033.02
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	3,852.69	–
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co.,Ltd.	–	50,000.00
Guangzhou Wang Lao Ji Pharmaceutical Co.,Ltd.	–	187,500.00
	8,083,724.98	5,542,533.02
Advances from customers: GPLL	5,250.00	–
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	774,870.00	–
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	371,000.00	–
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	–	104,378.50
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	8,308.85	–
Guangzhou Pharmaceuticals Corporation	1,418,812.40	2,822,241.93
	2,578,241.25	2,926,620.43

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

7 CONTINGENCIES

(1) As at 31 December 2011, the Group renders guarantee for external parties as follows:

Name of the guaranteed entity	Nature of guarantee	Amount	Duration
Guangzhou Nuo Cheng Bio-tech Co.,Ltd.	Loans for working capital	50,000,000.00	1 year

(2) As at 31 December 2011, the actual balance of the guarantees provided by the Company to the subsidiaries are summarised as follows:

Name of the guaranteed entity	Nature of guarantee	Amount	Duration
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Loans for working capital	10,000,000.00	10 months
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Loans for working capital	70,000,000.00	1 year
Guangzhou HanFang Pharmaceutical Co., Ltd.	Bank acceptance notes	3,049,034.66	6 months
		<u>83,049,034.66</u>	

8 COMMITMENTS

(1) Capital commitments

(a) Capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet

The Group's capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2011	31 December 2010
Building, machinery and equipment	<u>20,385,584.98</u>	<u>3,677,093.24</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

8 COMMITMENTS (Continued)

(1) Capital commitments (Continued)

- (a) Capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet (Continued)

The Group's share of the jointly controlled entities' capital commitments are as follows:

	31 December 2011	31 December 2010
Building, machinery and equipment	9,749,841.31	16,847,493.00

- (b) Capital commitments authorized by the management but are not yet contracted for

	31 December 2011	31 December 2010
Investment	2,000,000.00	–

(2) Operating lease commitments

- (a) Operating leases rent-in

The Group's rental assets from operating lease are mainly buildings, the minimum lease payments of significant rental under operating lease are summarised as follows:

	Minimum lease payables	
	31 December 2011	31 December 2010
Remaining leasing term		
Within 1 year (including 1 year)	17,402,488.93	21,445,875.70
1 to 5 years (including 5 years)	21,577,802.88	27,526,085.30
Over 5 years	19,819,585.97	20,882,955.08
	58,799,877.78	69,854,916.08

The rental expenses under operating lease amounting to RMB21,595 thousand are recognised in the profit or loss for the year ended 31 December 2011 (for the year ended 31 December 2010: RMB23,087 thousand).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

8 COMMITMENTS (Continued)

(2) Operating lease commitments (Continued)

(b) Operating leases leased-out

The Group's leased assets held under operating lease are mainly buildings, the minimum lease receipts of significant lease under operating lease are summarised as follows:

Remaining leasing term	Minimum lease payables	
	31 December 2011	31 December 2010
Within 1 year (including 1 year)	42,044,749.87	54,290,281.58
1 to 5 years (including 5 years)	84,792,583.42	127,122,345.76
Over 5 years	109,170,642.06	76,454,615.81
	236,007,975.35	257,867,243.15

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2010.

9 EVENTS AFTER THE BALANCE SHEET DATE

In accordance with the resolution 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, amounting to RMB81,090 thousand in total based on the number of shares issued amounting to 810,900,000, which will be submitted to the Company's 2011 Annual General Meeting of Shareholders.

10 OTHER SIGNIFICANT EVENTS

- (1) There are no significant debt restructurings incurred in the current year.
- (2) There are no significant non-monetary transactions incurred in the current year.
- (3) The Company's controlling shareholder GPLH is planning significant assets restructuring related to the Company. On the date these financial statements were approved for issue, GPLH has got pre-approval for the significant assets restructuring from Guangdong State-owned Assets Supervision and Administration Commission. The Company and other parties will continue to proceed this significant assets restructuring, figure out the detailed plan and consult with relevant authorities.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

11. SEGMENT INFORMATION

As the chief operating decision-maker, the 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 2011 and as of 31 December 2011 are as follows:

	Manufacturing	Pharmaceutical 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 amortisation	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

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

11. SEGMENT INFORMATION (Continued)

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

	Pharmaceutical					
	Manufacturing	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 amortisation	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

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

11. SEGMENT INFORMATION *(Continued)*

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

The Group's revenue from external customers in 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 summarised as follows:

	31 December 2011	31 December 2010
Revenue from external customers		
PRC	5,213,310,236.48	4,340,694,759.83
Other countries	226,301,381.98	145,372,568.80
	5,439,611,618.46	4,486,067,328.63
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
	2,481,644,979.88	2,233,473,464.47

12. FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operating activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities and future transactions denominated in foreign currencies (mainly USD and HKD). The Group's finance department (Group Finance) is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, in order to minimise the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

As at 31 December 2011 and 31 December 2010, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as below:

	31 December 2011			
	USD	HKD	Others	Total
Financial assets denominated in foreign currency –				
Cash at bank and on hand	2,563,546.87	2,077,347.39	–	4,640,894.26
Accounts receivable	4,335,574.31	1,525,529.52	–	5,861,103.83
	6,899,121.18	3,602,876.91	–	10,501,998.09
Financial liabilities denominated in foreign currency –				
Short-term borrowings	27,838,849.42	–	–	27,838,849.42
Accounts payable	6,696,979.49	–	–	6,696,979.49
	34,535,828.91	–	–	34,535,828.91

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2010			
	USD	HKD	Others	Total
Financial assets denominated in foreign currency –				
Cash at bank and on hand	452,108.05	987,420.55	–	1,439,528.60
Accounts receivable	4,188,017.66	1,375,192.16	–	5,563,209.82
	<u>4,640,125.71</u>	<u>2,362,612.71</u>	<u>–</u>	<u>7,002,738.42</u>
Financial liabilities denominated in foreign currency –				
Short-term borrowings	8,867,878.83	–	–	8,867,878.83
Account payables	8,791,579.75	19,589.14	232,865.52	9,044,034.41
	<u>17,659,458.58</u>	<u>19,589.14</u>	<u>232,865.52</u>	<u>17,911,913.24</u>

As at 31 December 2011, if RMB had strengthened/weakened by 10% against the USD or HKD with all other variables held constant, the Group's net profit for the period would have been approximately RMB285 thousand (As at 31 December 2010: RMB153 thousand) lower/higher.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(1) Market risk *(Continued)*

(b) Interest rate risk

As at 31 December 2011, the Group has no long-term interest bearing borrowings. Thus, the Group is not exposed to significant interest rate risks.

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2011					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	384,135,738.08	-	-	-	-	384,135,738.08
Financial assets held for trading	-	-	-	-	3,127,692.50	3,127,692.50
Notes receivable	430,388,075.25	-	-	-	-	430,388,075.25
Accounts receivable	463,272,917.69	-	-	-	-	463,272,917.69
Other receivables	63,848,238.30	-	-	-	-	63,848,238.30
Available-for-sale financial assets	-	-	-	-	18,907,856.64	18,907,856.64
	<u>1,341,644,969.32</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,035,549.14</u>	<u>1,363,680,518.46</u>
Financial liabilities –						
Short-term borrowings	147,998,897.45	-	-	-	-	147,998,897.45
Notes payable	5,432,012.71	-	-	-	-	5,432,012.71
Accounts payable	350,249,598.28	-	-	-	-	350,249,598.28
Other payables	121,543,593.12	-	-	-	-	121,543,593.12
Long-term payables	-	-	-	4,423,405.56	-	4,423,405.56
	<u>625,224,101.56</u>	<u>-</u>	<u>-</u>	<u>4,423,405.56</u>	<u>-</u>	<u>629,647,507.12</u>
Provision of guarantees	50,000,000.00	-	-	-	-	50,000,000.00

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2010					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	707,396,997.50	-	-	-	-	707,396,997.50
Financial assets held for trading	-	-	-	-	11,669,292.02	11,669,292.02
Notes receivable	200,470,880.49	-	-	-	-	200,470,880.49
Accounts receivable	361,623,301.86	-	-	-	-	361,623,301.86
Other receivables	52,592,713.94	-	-	-	-	52,592,713.94
Available-for-sale financial assets	-	-	-	-	25,615,245.16	25,615,245.16
	<u>1,322,083,893.79</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,284,537.18</u>	<u>1,359,368,430.97</u>
Financial liabilities –						
Short-term borrowings	39,527,506.61	-	-	-	-	39,527,506.61
Notes payable	76,326,446.93	-	-	-	-	76,326,446.93
Accounts payable	264,375,227.56	-	-	-	-	264,375,227.56
Other payables	129,248,607.08	-	-	-	-	129,248,607.08
Long-term payables	-	-	-	4,423,405.56	-	4,423,405.56
	<u>509,477,788.18</u>	<u>-</u>	<u>-</u>	<u>4,423,405.56</u>	<u>-</u>	<u>513,901,193.74</u>
Provision of guarantees	50,000,000.00	-	-	-	-	50,000,000.00

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(3) Liquidity risk *(Continued)*

The repayment periods of the bank loans and other loans are analysed as follow:

	31 December 2011		31 December 2010	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	147,998,897.45	–	39,527,506.61	–

(4) Fair value

(a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK (Continued)

(4) Fair value (Continued)

(b) Financial instruments measured at fair value (Continued)

As at 31 December 2011, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets held				
for trading –				
Investments in equity				
instrument held for				
trading	3,127,692.50	-	-	3,127,692.50
Available-for-sale				
financial assets –				
Available-for-sale				
equity instruments	18,907,856.64	-	-	18,907,856.64
	<u>22,035,549.14</u>	<u>-</u>	<u>-</u>	<u>22,035,549.14</u>

As at 31 December 2010, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets held				
for trading –				
Investments in				
debenture held				
for trading	5,000,000.00	-	-	5,000,000.00
Investments in equity				
instrument held				
for trading	6,669,292.02	-	-	6,669,292.02
Available-for-sale				
financial assets –				
Available-for-sale				
equity instruments	25,615,245.16	-	-	25,615,245.16
	<u>37,284,537.18</u>	<u>-</u>	<u>-</u>	<u>37,284,537.18</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(4) Fair value *(Continued)*

(b) Financial instruments measured at fair value *(Continued)*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using valuation techniques. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

13. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2010	Profit or loss arising from changes in fair value during the current year	Accumulated changes in fair value recognised in equity during the current year	Impairment loss recognised during the current year	31 December 2011
Financial assets –					
Financial assets at fair value through profit or loss	11,669,292.02	(3,541,599.52)	–	–	3,127,692.50
Available-for-sale financial assets	25,615,245.16	–	(6,707,388.52)	–	18,907,856.64
	<u>37,284,537.18</u>	<u>(3,541,599.52)</u>	<u>(6,707,388.52)</u>	<u>–</u>	<u>22,035,549.14</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

14. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2010	Profit or loss arising from changes in fair value during the current year	Accumulated changes in fair value recognised in equity during the current year	Impairment loss recognised during the current year	31 December 2011
Financial assets –					
Cash and bank	1,439,528.60	–	–	–	4,640,894.26
Accounts receivable	5,563,209.82	–	–	–	5,861,103.83
	<u>7,002,738.42</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,501,998.09</u>
Financial liabilities –					
Short-term borrowings	8,867,878.83	–	–	–	27,838,849.42
Accounts payable	9,044,034.41	–	–	–	6,696,979.49
	<u>17,911,913.24</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>34,535,828.91</u>

15. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Financial assets held for trading

	31 December 2011	31 December 2010
Listed shares	<u>3,127,692.50</u>	<u>6,669,292.02</u>

The investments in equity instruments held for trading are securities listed on the Shanghai Stock Exchange, of which the fair value is determined at the closing price of the Shanghai Stock Exchange on the last trading day of the reporting period.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable

The majority of the Company's sales are transacted at cash, advances or bank notes.

(a) The aging of accounts receivable is analysed as below:

	31 December 2011	31 December 2010
Within 1 year	-	9,554,575.30
1 to 2 years	3,673,874.92	481,938.60
	3,673,874.92	10,036,513.90

(b) Accounts receivable by categories are analysed as follows:

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group with credit risk characteristic by aging	3,673,874.92	100.00%	367,526.99	10.00%
Individually insignificant but subject to separate provisions	-	-	-	-
	3,673,874.92	100.00%	367,526.99	10.00%

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

(b) Accounts receivable by categories are analysed as follows: (Continued)

	31 December 2010			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group with credit risk characteristic by aging	9,872,445.34	98.37%	139,057.55	1.41%
Individually insignificant but subject to separate provisions	164,068.56	1.63%	164,068.56	100.00%
	<u>10,036,513.90</u>	100.00%	<u>303,126.11</u>	3.02%

Classification of accounts receivable: refer to Note 2 (10).

- (c) As at 31 December 2011, there are no accounts receivable that are individually significant and subject to separate provision.
- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analyzed as follows:

	31 December 2011			31 December 2010		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	-	-	-	9,424,299.74	95.46%	94,242.99
1 to 2 years	3,673,874.92	100.00%	367,526.99	448,145.60	4.54%	44,814.56
	<u>3,673,874.92</u>	<u>100.00%</u>	<u>367,526.99</u>	<u>9,872,445.34</u>	100.00%	<u>139,057.55</u>

- (e) As at 31 December 2011, there are no accounts receivable that are individually insignificant but subject to separate provision.
- (f) There are no accounts receivable that are reversed or collected during the current year.
- (g) There are no accounts receivable that are collected by restructuring or other manners during the current year.
- (h) There are no accounts receivable that are written off during the current year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

(i) As at 31 December 2011, there are no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

(j) As at 31 December 2011, accounts receivable with significant balance are analysed as below:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	3,673,874.92	1 to 2 years	100%

(k) Accounts receivable from related parties are analyzed as below:

Name of the entity	Relation with the Company	Amount	% of total balance
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	3,673,874.92	100%

(l) There are no accounts receivables derecognised during the current year.

(m) As at 31 December 2011, there are no securitisations that targeted at accounts receivable.

(3) Other receivables

	31 December 2011	31 December 2010
Receivables due from related parties	482,521,454.36	430,668,125.31
Deposits, rentals and staff advances	5,974,246.95	6,149,242.43
Others	965,729.14	502,043.54
	<hr/>	<hr/>
	489,461,430.45	437,319,411.28
Less: provision for bad debts	502,043.54	502,043.54
	<hr/>	<hr/>
	488,959,386.91	436,817,367.74

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

(a) Other receivables by categories are analyzed as follows:

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	502,043.54	0.10%	502,043.54	100%
Subject to provision by groups:				
Group with credit risk characteristics by aging	-	-	-	-
Group in which provision for bad debts are made by specific identification	6,305,254.35	1.29%	-	-
Receivables due from related parties	482,521,454.36	98.58%	-	-
Deposits and staff advances	132,678.20	0.03%	-	-
Individually insignificant but subject to separate provision	-	-	-	-
	489,461,430.45	100.00%	502,043.54	0.10%

	31 December 2010			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	502,043.54	0.12%	502,043.54	100.00%
Subject to provision by groups:				
Group with credit risk characteristics by aging	-	-	-	-
Group in which provision for bad debts are made by specific identification	5,788,327.47	1.32%	-	-
Receivables due from related parties	430,668,125.31	98.48%	-	-
Deposits and staff advances	360,914.96	0.08%	-	-
Individually insignificant but subject to separate provision	-	-	-	-
	437,319,411.28	100.00%	502,043.54	0.12%

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

- (b) As at 31 December 2011, other receivables that are individually significant and subject to separate provision are analyzed as follows:

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Bank of Hainan	502,043.54	502,043.54	100.00%	Unable to be collected

- (c) As at 31 December 2011, there are no other receivables in the Group in which provisions are made using aging analysis method.

- (d) Other receivables that are subject to fully provision or in large proportionate but are reversed or collected in full amount or in large proportionate amounted to RMB1,318 thousand in the current year, details are as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount collected	Amount of reversal of provision for bad debts
Receivables due from Nanfang Securities Co., Ltd	Collection through legal procedures	Bankruptcy	1,317,784.35	1,317,784.35	-

- (e) There are no others receivables collected by restructuring or other manners in the current year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

- (f) Other receivables that are written off in prior years but collected in the current year amounted to RMB1,318 thousand, details are as follows:

Name of entity	Nature of other receivables	Amount collected	Reason	Arising from related party transactions or not
Nanfang Securities Co., Ltd	Bankrupt property distribution	(1,317,784.35)	Collection of written off bad debts	No

- (g) As at 31 December 2011, other receivables due from shareholders who hold more than 5% of the voting rights of the Company was receivables due from GPLH amounted to RMB1,032 thousand (31 December 2010: RMB1,584 thousand due from GPLH).

- (h) As at 31 December 2011, the top five of other receivables are analyzed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	226,907,248.41	Within 1 year	46.36%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	81,503,576.76	Within 1 year	16.65%
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	70,303,411.10	Within 1 year	14.36%
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	56,569,522.68	Within 2 years	11.56%
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	36,744,643.05	Within 1 year	7.51%
		<u>472,028,402.00</u>		<u>96.44%</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

(i) Other receivables due from related parties are analyzed as follows:

	Relation with the Company	Amount	% of total balance
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	70,303,411.10	14.36%
Guangzhou Zhong Yi Pharmaceutical Co.Ltd.	Wholly-owned subsidiary	2,046,248.00	0.42%
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	56,569,522.68	11.56%
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	226,907,248.41	46.36%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	81,503,576.76	16.65%
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	36,744,643.05	7.51%
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	6,000,000.00	1.23%
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Jointly controlled entities	1,414,804.36	0.29%
GPHL	Parent company	1,032,000.00	0.21%
		482,521,454.36	98.59%

(j) There are no other receivables that are derecognised during the current year.

(k) As at 31 December 2011, there are no securitisations that targeted at other receivables.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Available-for-sale financial assets

	31 December 2011	31 December 2010
Available-for-sale equity instruments	<u>17,424,000.00</u>	<u>23,958,000.00</u>

The available-for-sale financial assets comprise the A-share of China Everbright Bank Company Limited held by the Company, and the fair value of which is determined at the closing price of Shanghai Stock Exchange on the last trading day of the reporting period. The lockup period for the A-share of China Everbright Bank Company Limited held by the Company is from 18 August 2010 to 17 August 2011.

(5) Entrusted loan

	31 December 2011	31 December 2010
Entrusted loan to subsidiaries	<u>228,000,000.00</u>	<u>233,000,000.00</u>

As at 31 December 2011, entrusted loan to subsidiaries represents entrusted loans of RMB198,000 thousand to Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and that of RMB30,000 thousand to Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. (31 December 2010: RMB203,000 thousand to Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and RMB30,000 thousand to Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(6) Long-term equity investments

(a) Details of long-term equity investments

Name of entity	Investment cost	31 December 2010	Current year movement	31 December 2011	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current year	Cash dividend in current year
Equity method:									
Guangzhou Pharmaceuticals Corporation	396,589,139.78	567,311,465.02	216,123,443.82	783,434,908.84	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	342,170,256.55	38,999,002.89	381,169,259.44	48.05%	48.05%	-	-	29,513,531.70
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	7,179,119.80	30,230,974.87	37,410,094.67	20.00%	20.00%	-	-	-
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Sub-total of equity method	549,389,264.22	916,660,841.37	285,353,421.58	1,202,014,262.95	N/A	N/A	-	-	29,513,531.70
Cost method:									
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	125,322,300.00	125,322,300.00	-	125,322,300.00	88.99%	88.99%	-	-	-
Guangzhou Zhong Yi Pharmaceutical Co.Ltd.	324,320,391.34	324,320,391.34	-	324,320,391.34	100.00%	100.00%	-	-	70,651,281.03
Guangzhou Chen Li Ji Pharmaceutical Factory Co.,Ltd.	142,310,800.00	142,310,800.00	-	142,310,800.00	100.00%	100.00%	-	-	16,637,848.66
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	171,717,109.58	171,717,109.58	-	171,717,109.58	97.04%	97.04%	55,000,000.00	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	126,775,500.00	126,775,500.00	-	126,775,500.00	100.00%	100.00%	-	-	-
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,800.00	101,489,800.00	-	101,489,800.00	88.40%	88.40%	-	-	10,552,874.92
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	144,298,200.00	144,298,200.00	-	144,298,200.00	87.77%	87.77%	-	-	5,704,830.56
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	89,078,900.00	89,078,900.00	-	89,078,900.00	100.00%	100.00%	69,000,000.00	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd.	18,557,303.24	18,557,303.24	-	18,557,303.24	100.00%	100.00%	-	-	1,064,526.04
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd	129,145,812.38	129,145,812.38	-	129,145,812.38	98.48%	98.48%	47,000,000.00	-	-
Guangxi Ying Kang Pharmaceutical Co., Ltd.	21,536,540.49	21,536,540.49	-	21,536,540.49	51.00%	51.00%	-	-	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Guangdong Southern China Advanced Pharmaceutical Co., Ltd.	5,000,000.00	5,000,000.00	-	5,000,000.00	5.56%	5.56%	-	-	-
Sub-total of cost method	1,399,752,657.03	1,399,752,657.03	-	1,399,752,657.03	N/A	N/A	171,000,000.00	-	104,611,361.21
Total	1,949,141,921.25	2,316,413,498.40	285,353,421.58	2,601,766,919.98	N/A	N/A	171,000,000.00	-	134,124,892.91

(b) There are no limitation on fund transfer between the Group and its investing entities.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(7) Investment properties

	31 December 2010	Increase in current year	Decrease in current year	31 December 2011
Cost	42,384,523.00	–	–	42,384,523.00
Buildings	42,384,523.00	–	–	42,384,523.00
Land use rights	–	–	–	–
Accumulated depreciation/ amortisation	4,921,314.05	1,342,176.56	–	6,263,490.61
Buildings	4,921,314.05	1,342,176.56	–	6,263,490.61
Land use rights	–	–	–	–
Net book value	37,463,208.95			36,121,032.39
Buildings	37,463,208.95			36,121,032.39
Land use rights	–	–		–
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	37,463,208.95			36,121,032.39
Buildings	37,463,208.95			36,121,032.39
Land use rights	–			–

For the year ended 31 December 2011, RMB1,342 thousand (for the year ended 31 December 2010: RMB1,342 thousand) of depreciation and amortisation was charged to the investment properties.

Land use rights within investment properties are all located in the PRC with useful life between 10 to 50 years.

For the year ended 31 December 2011, the investment properties generated RMB5,808 thousand (for the year ended 31 December 2010: RMB5,638 thousand) of lease income, and incurred RMB1,028 thousand (for the year ended 31 December 2010: RMB993 thousand) of relevant taxes.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(8) Fixed assets

	31 December 2010	Increase in current year	Decrease in current year	31 December 2011
Cost	44,078,352.16	626,057.00	755,735.00	43,948,674.16
Buildings	19,969,533.74	–	–	19,969,533.74
Machinery and equipment	299,472.50	–	–	299,472.50
Motor vehicles	1,620,086.60	264,769.00	90,000.00	1,794,855.60
Computer and electronic equipment	–	–	–	–
Office equipment	19,880,730.93	361,288.00	665,735.00	19,576,283.93
Fixed assets decoration	2,308,528.39	–	–	2,308,528.39
Accumulated depreciation	29,508,375.02	991,147.04	740,611.98	29,758,910.08
Buildings	7,096,601.73	564,852.53	–	7,661,454.26
Machinery and equipment	170,890.58	16,189.31	–	187,079.89
Motor vehicles	1,401,053.11	121,476.11	85,499.93	1,437,029.29
Computer and electronic equipment	–	–	–	–
Office equipment	18,531,301.21	288,629.09	655,112.05	18,164,818.25
Fixed assets decoration	2,308,528.39	–	–	2,308,528.39
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Machinery and equipment	–	–	–	–
Motor vehicles	–	–	–	–
Computer and electronic equipment	–	–	–	–
Office equipment	–	–	–	–
Fixed assets decoration	–	–	–	–
Carrying amount	14,569,977.14			14,189,764.08
Buildings	12,872,932.01			12,308,079.48
Machinery and equipment	128,581.92			112,392.61
Motor vehicles	219,033.49			357,826.31
Computer and electronic equipment	–			–
Office equipment	1,349,429.72			1,411,465.68
Fixed assets decoration	–			–

For the year ended 31 December 2011, depreciation charged to fixed assets amounted to RMB991 thousand (for the year ended 31 December 2010: RMB1,014 thousand), of which RMB0 and RMB991 thousand were charged to selling expenses and general and administrative expenses (for the year ended 31 December 2010: RMB24 thousand and RMB990 thousand).

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(9) Provision for asset impairment

	31 December 2010	Increase in current year	Decrease in current year		31 December 2011
			Reversal	Write-off	
Provision for bad debts of accounts receivable	303,126.11	64,400.88	-	-	367,526.99
Provision for bad debts of other receivables	502,043.54	-	1,317,784.35	(1,317,784.35)	502,043.54
Provision for impairment of long-term equity investments	171,000,000.00	-	-	-	171,000,000.00
	<u>171,805,169.65</u>	<u>64,400.88</u>	<u>1,317,784.35</u>	<u>(1,317,784.35)</u>	<u>171,869,570.53</u>

(10) Accounts payable

Details of accounts payable

	31 December 2011	31 December 2010
Within 1 year	277,056.19	464,752.56
Over 1 year	84,860.91	46,352.42
	<u>361,917.10</u>	<u>511,104.98</u>

(11) Bank and other borrowings

	31 December 2011	31 December 2010
Borrowings from subsidiaries	<u>-</u>	<u>30,000,000.00</u>

All the borrowings are repayable within 5 years.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(12) Provisions

	31 December 2011	31 December 2010
Transitional health insurance	<u>–</u>	<u>73,633.85</u>

According to the prescripts of “the Trial Procedures of Guangzhou Urban Employee Basic Medical Insurance” (Guangzhou Municipal People’s Government [2002] No. 17) and “additional comments on the payment of transitional basic medical insurance and related issues” (穗勞社醫[2002] No. 14), Guangzhou enterprises must purchase transitional basic medical insurance for employees already retired or will retire in the next 10 years since December 1, 2001. The company is one of Guangzhou enterprises which must be committed to purchase transitional health insurance for retired employees in accordance with the above prescripts. Since the obligation is a present obligation formed by past transactions or events, which will result in outflow of economic benefits, it should be recognised as a liability. As at 31 December 2011, the provision is fully paid.

A variety of factors which result in the changes of the best estimate of transitional health insurance: (i) the annual real growth rate of employee wages; (ii) actual life span of retired employees; (iii) the actual discount rate.

(13) Revenue and cost of sales

	Year ended 31 December 2011		
	Main operations	Other operations	Subtotal
Revenue	12,923,540.02	41,392,001.28	54,315,541.30
Cost of sales	12,674,515.32	1,342,176.56	14,016,691.88
Gross profit	249,024.70	40,049,824.72	40,298,849.42
	Year ended 31 December 2010		
	Main operations	Other operations	Subtotal
Revenue	649,401,250.36	34,702,754.22	684,104,004.58
Cost of sales	632,230,798.86	1,342,176.56	633,572,975.42
Gross profit	17,170,451.50	33,360,577.66	50,531,029.16

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(13) Revenue and cost of sales (Continued)

(a) Revenue and cost of main operations by natures are summarised as follows:

	Revenue from main operations		Cost of main operations	
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
Pharmaceutical trading	12,923,540.02	329,166,786.58	12,674,515.32	314,083,822.46
Other trading	-	320,234,463.78	-	318,146,976.40
	12,923,540.02	649,401,250.36	12,674,515.32	632,230,798.86

(b) Revenue and cost of main operations by regions are summarised as follows:

	Revenue from main operations		Cost of main operations	
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
Southern China	12,923,540.02	609,034,893.16	12,674,515.32	592,925,050.02
Eastern China	-	31,948,310.92	-	31,108,883.04
Northern China	-	279,420.35	-	272,078.70
Northeast China	-	9,435.90	-	9,187.98
Southwestern China	-	8,127,959.26	-	7,914,400.69
Northwestern China	-	1,230.77	-	1,198.43
	12,923,540.02	649,401,250.36	12,674,515.32	632,230,798.86

(c) There are not any individually customers which constituted to a significant portion of the Company's revenue from main operations, as all major customers of the Company are retail customers during the current year.

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(14) Financial expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Interest expenses	3,731,430.52	683,125.00
Interest income	(1,829,552.34)	(2,661,688.34)
Exchanges gains or losses	(38,146.35)	(6,728.71)
Others	32,729.91	53,730.98
	<u>1,896,461.74</u>	<u>(1,931,561.07)</u>

In 2011 and 2010, all interest expenses belong to borrowings which are repayable within 5 years.

(15) Profit arising from changes in fair value

	Year ended 31 December 2011	Year ended 31 December 2010
(Loss)/Profit arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	(639,378.60)	424,903.50
(Loss)/Profit arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(2,902,220.92)	912,438.60
	<u>(3,541,599.52)</u>	<u>1,337,342.10</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(16) Investment income

(a) Investment income details

	Year ended 31 December 2011	Year ended 31 December 2010
Income from financial assets:		
Income from financial assets held for trading	134,857.68	116,357.47
Income from available-for-sale financial assets	572,330.00	246,993.36
Income from entrusted loans	8,759,000.81	8,872,226.61
Income from long-term equity investments under cost method	104,611,361.21	90,762,991.77
Income from long-term equity investments under equity method	135,027,315.32	105,723,007.91
	249,104,865.02	205,721,577.12

(b) Investment income from long-term equity investments under cost method

	Year ended 31 December 2011	Year ended 31 December 2010
Guangzhou Zhong Yi Pharmaceutical Co., Ltd.	70,651,281.03	61,470,186.06
Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	16,637,848.66	15,625,990.06
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	10,552,874.92	9,816,373.42
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	5,704,830.56	3,850,442.23
Guangzhou Pharmaceutical Import & Export Co, Ltd.	1,064,526.04	-
	104,611,361.21	90,762,991.77

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(16) Investment income (Continued)

(c) Investment income from long-term equity investments under equity method

	Year ended 31 December 2011	Year ended 31 December 2010
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	68,512,534.59	50,956,597.97
Guangzhou Pharmaceuticals Corporation	66,283,805.86	60,422,977.13
Guangzhou Jinshen Medical Co., Ltd.	-	(18,755.62)
Golden Eagle Fund Management Co., Ltd.	230,974.87	(5,637,811.57)
	<u>135,027,315.32</u>	<u>105,723,007.91</u>

(17) Asset impairment losses

	Year ended 31 December 2011	Year ended 31 December 2010
Impairment loss on bad debts	<u>(1,253,383.47)</u>	<u>(690,599.78)</u>

(18) Income tax expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax calculated based on tax law and related regulations	5,422,723.79	5,595,114.40
Deferred income tax	<u>(1,702,938.43)</u>	<u>308,802.60</u>
	<u>3,719,785.36</u>	<u>5,903,917.00</u>

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(18) Income tax expenses (Continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the Company's financial statements to the income tax expenses is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Total profit	252,254,933.88	220,448,253.50
Income tax expenses calculated at applicable tax rates	63,063,733.47	55,112,063.38
Income not subject to tax	(59,976,433.13)	(49,853,814.20)
Others	632,486.02	645,667.82
Income tax expenses	3,719,785.36	5,903,917.00

(19) Supplementary information to the Company's cash flow statement

	Year ended 31 December 2011	Year ended 31 December 2010
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	248,535,148.52	214,544,336.50
Add: Provisions for asset impairment	(1,253,383.47)	(690,599.78)
Depreciation and amortisation of fixed assets and investment property	2,333,323.60	2,028,215.05
Amortisation of intangible assets	-	-
Amortisation of long-term prepaid expenses	-	-
Gains on disposal of fixed assets, intangible assets and other long-term assets	(43,152.18)	-
Losses on scrapping of fixed assets	-	27,537.12
Loss (less: gains) on change in fair value	3,541,599.52	(1,337,342.10)
Financial expenses	3,628,928.82	681,845.16
Investment income	(267,370,022.78)	(220,327,041.06)
Increase in deferred tax assets	(1,426,769.56)	(36,433.39)
Increase (less: decrease) in deferred tax liabilities	(276,168.87)	345,235.98
Decrease (less: increase) in inventories	(158,251.48)	10,976,256.91
Decrease in operating receivables	11,603,395.36	82,726,401.86
Decrease in operating payables	(7,175,800.65)	(61,297,433.01)
Net cash flows from operating activities	(8,061,153.17)	27,640,979.24

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(19) Supplementary information to the Company's cash flow statement (Continued)

	Year ended 31 December 2011	Year ended 31 December 2010
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
(c) Net movement in cash and cash equivalents		
Cash at end of year	107,691,016.27	213,007,698.60
Less: cash at beginning of year	213,007,698.60	223,165,989.78
Add: cash equivalents at end of year	-	-
Less: cash equivalents at beginning of year	-	-
	(105,316,682.33)	(10,158,291.18)

16 NET CURRENT ASSETS

	Group	
	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	1,440,830,200.95	1,461,749,986.82
	Company	
	31 December 2011	31 December 2010
Current assets	965,474,564.12	978,417,616.81
Less: Current liabilities	115,750,926.31	51,116,161.64
Net current assets	849,723,637.81	927,301,455.17

Notes to the financial statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

17 TOTAL ASSETS LESS CURRENT LIABILITIES

	Group	
	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	3,979,925,121.04	3,762,465,785.76

	Company	
	31 December 2011	31 December 2010
Total assets	3,467,180,457.88	3,201,599,709.05
Less: current liabilities	115,750,926.31	51,116,161.64
Total assets less current liabilities	3,351,429,531.57	3,150,483,547.41

Supplementary Information

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	Year ended 31 December 2011	Year ended 31 December 2010
Losses on disposal of non-current assets	(1,033,972.32)	3,740,013.46
Tax return or exemption without proper authorization	-	-
Government grants recognised in profits or losses (excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	25,357,934.69	25,792,131.98
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-
Gains or losses arising from contingencies irrelevant to the Group's normal business	-	-
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	(3,158,513.96)	2,435,362.49
Reversal of provision for bad-debts of accounts receivable subject to separate provision	1,233,435.91	8,190,755.87
Gains or losses arising from entrusted loan granted to other entities	(653,775.68)	(512,256.39)
Gains or losses arising from changes in fair value of investment properties under fair value model	-	-
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	-	-
Consignment fee income arising from entrusted operations	-	-
Other non-operating income and expenses other than the aforementioned items	1,743,368.96	(1,373,863.14)
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(805,639.70)	(2,139,481.80)
Impact on minority interests (post-tax)	(893,810.72)	(2,188,505.27)
Total	21,789,027.18	33,944,157.20

Supplementary Information

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

2 RETURN ON NET ASSETS AND EARNINGS PER SHARE:

Year ended 31 December 2011

	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	7.84%	0.355	0.355
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	7.25%	0.328	0.328

Year ended 31 December 2010

	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	7.81%	0.329	0.329
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	6.82%	0.288	0.288

Supplementary Information

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS

Items	At 31 December 2011/ Year ended 31 December 2011 (RMB'000)	At 31 December 2010/ Year ended 31 December 2010 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Cash at bank and on hand	384,136	707,397	(45.70)	Decrease was mainly due to the increased investment in jointly controlled entity Guangzhou Pharmaceuticals Corporation and associate Golden Eagle Fund Management Co., Ltd., and the decrease in net cash flows from operating activities, which is mainly due to the increase in receivables and inventories.
Financial assets held for trading	3,128	11,669	(73.20)	Decrease was mainly due to redemption of the financial product and the decrease in the market price of the listed shares Haifei and Haiyao held by the Company.
Notes receivable	430,388	200,471	114.69	Increase was mainly due to the increased frequency of using notes to settle as the group adopted more loose collection policy to adapt to the fierce market environment.
Accounts receivable	446,596	331,183	34.85	Increase in accounts receivable was in line with the increase in sales, which was due to the effective marketing strategies and the expansion of market share this year.
Long-term equity investments	1,255,089	952,493	31.77	Increase was mainly due to the increased investment in jointly controlled entity Guangzhou Pharmaceuticals Corporation and associate Golden Eagle Fund Management Co., Ltd., amounting to RMB150,000,000 and RMB30,000,000 respectively, as well as the recognition of investment income using equity method.
Short-term borrowings	144,929	38,868	272.87	Increase was mainly due to the increased bank loans for the expansion of sales and import and export trading business of the trading subsidiaries.
Notes payable	5,432	76,326	(92.88)	Decrease was mainly because the Group was more willing to settle with suppliers by endorsement of notes receivable and cash, thus less notes payable were issued this year.
Accounts payable	350,250	264,375	32.48	Increase was mainly due to the longer credit term granted by suppliers in the current year.

Supplementary Information

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS (Continued)

Items	At 31 December 2011/ Year ended 31 December 2011 (RMB'000)	At 31 December 2010/ Year ended 31 December 2010 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Advances from customers	146,932	99,011	48.40	Increase was mainly due to the increased advances from customers for imports of raw materials and exports of goods.
Provisions	–	14,397	(100.00)	Decrease in accrued liabilities was mainly due to the payment of the transitional medical insurance.
Taxes and surcharges	44,043	30,169	45.99	Increase was mainly due to the increase in city maintenance and construction tax, education surcharges, and regional education surcharges this year.
Financial expenses	1,853	(2,196)	184.38	Increase in financial expenses was in line with the increased bank loans.
Asset impairment losses	917	(3,764)	124.36	Increase was mainly due to less reversal of bad debt provision this year.
Profit arising from changes in fair value	(3,542)	1,337	(364.92)	Decrease was due to the decrease in the market price of the listed shares Haiyao held by the Company.
Investment income	153,786	115,353	33.32	Increase was mainly due to the increased investment income from the Jointly controlled entities based on equity method, which were in line with the increased profit of the jointly controlled entities.
Non-operating expenses	7,303	15,266	(52.16)	Decrease was mainly due to the decreased frequency of fixed assets disposal.
Net cash flows from operating activities	(180,053)	73,218	(345.91)	Decrease was mainly due to the increase in receivables and inventories.
Net cash flows from investing activities	(220,527)	24,138	(1,013.61)	Decrease was mainly due to the increased investment in jointly controlled entity Guangzhou Pharmaceuticals Corporation and associate Golden Eagle Fund Management Co., Ltd. of RMB150,000,000 and RMB30,000,000 respectively.
Net cash flows from financing activities	60,259	(68,369)	188.14	Increase was mainly due to the increased bank loans for the expansion of sales and import and export trading business of the trading subsidiaries.

Documents Available for Inspection

1. The financial statements signed by the legal representative and the Financial Controller of the Company;
2. The auditor's reports sealed and signed by PricewaterhouseCoopers Zhong Tian Limited Company together with the financial statements prepared in accordance with PRC Accounting Standards;
3. The original company documents disclosed and announcements published in Shanghai Securities during the Reporting Period;
4. The documents listed above are available at the Secretariat.