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廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(a joint stock company with limited liability established in the People's Republic of China)

(H Share Stock Code: 0874)

Summary of 2006 Annual Report

1. IMPORTANT NOTICE

- 1.1 The Board of Directors (the “Board”), the Supervisory Committee (the “Supervisory Committee”) of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and its Directors, Supervisors and Senior Management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this summary and confirm that there are no false information, misleading statements or material omissions in this summary.
- 1.2 The Directors of the Board were present at the 31st Meeting of the Third Session of the Board of the Company, among whom Mr. Chen Zhinong, appointed Mr. Yang Rongming to attend the meeting and vote on his behalf, and Mr Wong Hin Wing, an Independent Non-executive Director, attended the meeting by means of telephone communication.

- 1.3 Mr. Yang Rongming (Chairman), Mr Shi Shaobin (Director and General Manager) and Mr. Chen Binghua (the Financial Controller and Senior Manager of the Finance Department), individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this summary.
- 1.4 Guangdong Yangcheng Certified Public Accountants Co., Ltd., the domestic auditors, and PricewaterhouseCoopers, the international auditors, have audited the financial reports of the Company and its subsidiaries (collectively the “Group”) and the Company for the year ended 31 December 2006 (the “Reporting Period” or the “Year”) and issued unqualified auditors’ reports thereon.
- 1.5 Unless otherwise specified, all the financial data contained in this summary is prepared in accordance with the PRC Accounting Standards and Systems.
- 1.6 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the accounts prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), the Chinese version shall prevail.
- 1.7 All the information required by paragraphs 45 and 45A of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEx”) (the “Listing Rules”) will be published on the website of HKEx in due course.
- 1.8 This summary is extracted from the annual report of the Company for 2006, which will be published on the websites of the Shanghai Stock Exchange and HKEx. Investors who wish to know more details are advised to refer to the full text of the annual report carefully.

2. COMPANY PROFILE

2.1 General information

Stock abbreviation:	GZ Phar.
Stock code:	600332 (A share)
Stock exchange:	The Shanghai Stock Exchange
Stock abbreviation:	GZ Phar.
Stock code:	0874 (H share)
Stock exchange:	The Stock Exchange of Hong Kong Limited
Registered address:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
Postal code:	510130
Internet website:	http://www.gpc.com.cn
E-mail:	sec@gpc.com.cn

2.2 Contact information

	Company secretary	Representative of securities affairs
Name	He Shuhua	Huang Xuezheng
Address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	
Telephone	(8620) 8121 8084	(8620) 8121 8086
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3. FINANCIAL DATA AND INDICATORS

3.1 Principal financial data

	2006	2005	Changes as compared with 2005	2004
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>
Income from				
principal operations	10,241,004	9,026,340	13.46	7,708,314
Total profit	370,362	306,741	20.74	167,642
Net profit	227,328	184,482	23.23	55,292
Net profit after deducting				
non-operating profit	226,567	185,561	22.10	63,170
Net cashflow from				
operating activities	38,880	146,323	(73.43)	200,542

	As at	As at	Changes as compared with	As at
	31 December	31 December	31 December	31 December
	2006	2005	2005	2004
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>
Total assets	5,409,413	5,098,095	6.11	5,182,878
Shareholders' fund				
(excluding minority interests)	2,788,088	2,621,437	6.36	2,440,230

3.2 Financial indicators

	2006	2005	Changes as compared with 2005 (%)	2004
Earnings per share (<i>RMB</i>)	0.28	0.23	23.23	0.07
The latest earnings per share (<i>RMB</i>)	—	—	—	—
Return on net assets (%)	8.15	7.04	An increase of 1.11 percentage points	2.27
Return on net assets calculated on the basis of net profit after deducting non-operating items (weighted average) (%)	8.74	7.64	An increase of 1.10 percentage points	2.63
Net cashflow per share generated from operating activities (<i>RMB</i>)	0.05	0.18	(73.43)	0.25

	As at 31 December 2006	As at 31 December 2005	Changes as compared with 31 December 2005 (%)	As at 31 December 2004
Net assets per share (RMB)	3.44	3.23	6.36	3.01
Adjusted net assets per share (RMB)	3.41	3.17	7.57	2.96

Non-operating items

Applicable Not applicable

Non-operating items	Amount (RMB'000)
Losses on disposal of long-term equity investment and fixed assets	(2,455)
Government grants and subsidies	1,190
Gain/(Loss) from short-term investments	6,025
Non-operating expenses after deducting provision for value impairment of assets	(2,214)
Income/(Loss) of entrusted loans	(1,099)
Income tax effect	(591)
Minority interests	(95)
Total	761

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

Applicable Not applicable

	As at 31 December 2006 (RMB'000)	As at 31 December 2005 (RMB'000)
Net assets under PRC Accounting Standards and Systems	2,788,088	2,621,437
Intangible assets capitalised	27,006	37,367
Difference arising from fixed assets revaluation	126,547	128,522
Deferred government grants and subsidies	(3,279)	(4,259)
Difference in provision for employee benefits in medical insurance	(60,197)	(53,586)
Provision for deferred taxation	23,082	10,822
Impairment on goodwill	(1,579)	(1,791)
Revaluation of investment properties	13,105	—
Difference in minority interests	(15,384)	(15,389)
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Capital and reserves attributable to equity holders of the Company under HKFRS	2,897,389	2,723,123
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	For the year ended 31 December 2006 (RMB'000)	For the year ended 31 December 2005 (RMB'000)
Net profit under PRC Accounting Standards and Systems	227,328	184,482
Amortisation of intangible assets	(10,361)	(10,382)
Additional depreciation		
on revalued fixed assets	(1,975)	(1,975)
Government grants recognised as income	1,106	452
Difference in provision for		
employee benefits in medical insurance	(6,611)	6,017
Provision for deferred taxation	12,260	4,841
Reversal of amortisation on goodwill (impairment on goodwill)	212	(1,791)
Unsettled long outstanding payables written off recognised as income	2,498	2,397
Negative goodwill arising from the additional investment of an external investor in a subsidiary	—	19,819
Negative goodwill arising from investment in an associate	238	—
Donations recognised as income	91	440
Appropriation to staff bonus and welfare fund charged as expenses	(7,680)	(6,074)
Decline in fair value of investment properties	(12)	—
Gain from disposals of fixed assets recognised as income	729	—
Difference in minority interests	244	(422)
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Profit attributable to equity holders of the Company under HKFRS	<u>218,067</u>	<u>197,804</u>

3.4 Financial indicators prepared in accordance with HKFRS

Indicators	2006	2005	2004	2003	2002
Sales (<i>RMB'000</i>)	10,241,004	9,026,340	7,709,565	6,973,113	5,943,823
Profit before income tax (<i>RMB'000</i>)	349,155	315,493	161,675	307,829	196,360
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	218,067	197,804	42,829	146,667	101,155
Total assets (<i>RMB'000</i>)	5,640,964	5,316,420	5,413,438	4,954,091	4,410,210
Total liabilities (<i>RMB'000</i>)	2,560,584	2,391,590	2,655,559	2,220,047	1,807,058
Capital and reserves attributable to equity holders of the Company (<i>RMB'000</i>)	2,897,389	2,723,123	2,545,592	2,551,417	2,454,080
Earnings per share (<i>RMB</i>)	0.27	0.24	0.05	0.18	0.13
Capital and reserves attributable to equity holders of the Company per share (<i>RMB</i>)	3.57	3.36	3.14	3.15	3.03
Return on capital and reserves attributable to equity holders of the Company (%)	7.53	7.26	1.68	5.75	4.12

Ratio of capital and reserves attributable to equity holders of the Company (%)	51.36	51.22	47.02	51.50	55.65
Gearing ratio (%) (note)	45.39	44.98	49.05	44.81	40.97

Note: Gearing ratio is calculated according to the following formula: total liabilities/total assets x 100%.

4. CHANGE IN SHARE CAPITAL AND SHAREHOLDERS DURING THE REPORTING PERIOD

4.1 Movement in share capital

	Before change		New issue	Change (+/-)			Sub-total (share)	After change	
	Number (share)	Percentage (%)		Bonus (share)	Reserves capitalised	Others		Number (share)	Percentage (%)
I. Share subject to selling restrictions									
1. State-owned shares	513,000,000	63.26	—	(23,400,000)	—	—	(23,400,000)	489,600,000	60.38
2. Share held by State-owned legal entities	—	—	—	—	—	—	—	—	—
3. Other domestic shares									
Including: Share held by domestic legal entities	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Shares held by foreign capital									
Including: Share held by overseas legal entities	—	—	—	—	—	—	—	—	—
Share held by overseas natural persons	—	—	—	—	—	—	—	—	—
Total shares subject to selling restrictions	513,000,000	63.26	—	(23,400,000)	—	—	(23,400,000)	489,600,000	60.38

II. Shares not subject to selling restrictions										
1. Renminbi-denominated										
ordinary shares	78,000,000	9.62	—	23,400,000	—	—	23,400,000	101,400,000	12.50	
2. Domestically listed										
foreign capital shares	—	—	—	—	—	—	—	—	—	
3. Overseas listed										
foreign capital shares	219,900,000	27.12	—	—	—	—	—	219,900,000	27.12	
4. Other										
	—	—	—	—	—	—	—	—	—	
Total shares not subject to selling restrictions										
	297,900,000	36.74	—	23,400,000	—	—	23,400,000	321,300,000	39.62	
III. Total shares										
	810,900,000	100	—	—	—	—	—	810,900,000	100	

On 12 April 2006, the Relevant A shareholders' Meeting of the Company approved the Share Reform Plan, pursuant to which the holders of circulating A shares would be offered 3 shares for every 10 A shares held.

4.2 The top ten shareholders and the top ten shareholders holding shares not subject to selling restrictions of the Company

Number of shareholders as at the end of the Reporting Period **29,932**

The top ten shareholders

Shareholders	Nature of shares	% of total issued share capital (%)	No. of shares (share)	Number of Non-circulating shares held (share)	Number of pledged or locked shares (share)
Guangzhou Pharmaceutcial Holdings Limited ("GPHL")	State-owned shares	Approximately 57.79	468,603,509	468,603,509	Note (1)
HKSCC Nominees Limited	H shares	Approximately 26.98	218,760,299	—	Unknown
China Greatwall Asset Management Corporation ("Greatwall Corporation")	State-owned shares	Approximately 2.59	20,996,491	20,996,491	Unknown
Bank of China-E Fund Steady Growth Securities Investment Fund	A shares	Approximately 1.03	8,323,466	—	Unknown
Bank of Communications-Ke Hui Securities Investment Fund	A shares	Approximately 0.62	5,038,021	—	Unknown
Western Securities Co., Limited	A shares	Approximately 0.53	4,265,538	—	Unknown
ICBC-Kai Yuan Securities Investment Fund	A shares	Approximately 0.48	3,871,582	—	Unknown

Bank of China-E Fund Strategic Growth No. 2 Mixed Securities Investment Fund	A shares	Approximately 0.17	1,399,801	—	Unknown
ICBC-E Fund Value Selective Stock-oriented Securities Investment Fund	A shares	Approximately 0.15	1,199,936	—	Unknown
National Social Security Fund 109 Group	A shares	Approximately 0.13	1,034,508	—	Unknown

The top ten shareholders holding shares of the Company which are not subject to selling restrictions

Shareholders	No. of shares not subject to selling restrictions held (share)	Nature of shares
HKSCC Nominees Limited	218,760,299	H shares
Bank of China-E Fund Steady Growth Securities Investment Fund	8,323,466	A shares
Bank of Communications-Ke Hui Securities Investment Fund	5,038,021	A shares
Western Securities Co., Limited	4,265,538	A shares
ICBC-Kai Yuan Securities Investment Fund	3,871,582	A shares
Bank of China-E Fund Strategic Growth No. 2 Mixed Securities Investment Fund	1,399,801	A shares
ICBC-E Fund Value Selective Stock-oriented Securities Investment Fund	1,199,936	A shares
National Social Security Fund 109 Group	1,034,508	A shares
HSBC Nomiees (Hong Kong) Limited	866,000	H shares
Zhou Zhiping	833,115	A shares

**Explanation on the connection
among the above shareholders**

- (1) During the Reporting Period, the controlling shareholder of the Company, GPLH, applied part of its shares of the Company for debt restructure of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“Baiyunshan Co., Ltd”). The total number of shares involved was 115,440,000 shares, among which 12,480,000 shares are intended to be transferred to Baiyunshan Co., Ltd. There were still 102,960,000 shares being pledged (including 65,110,000 shares that continued to be frozen on 15 May 2006) as at 31 December 2006.
- (2) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

Among the top ten shareholders of the Company, GPLH is not connected with the other nine shareholders and are not persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholder’s Shareholding in Listed Companies”. The Company is not aware of any connection among the other nine shareholders, or whether they are persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”

4.3 Information on the controlling shareholder and beneficial owner of the Company

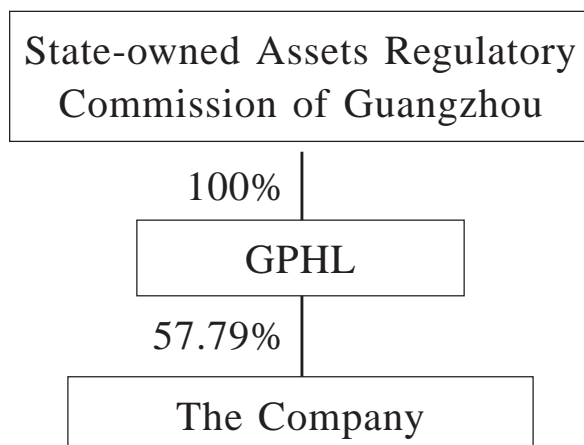
4.3.1 Change in the controlling shareholder and beneficial owner of the Company

Applicable Not applicable

4.3.2 Information on the controlling shareholder and beneficial owner of the Company as at the end of the Reporting Period

Name of shareholder	Guangzhou Phamrceutical Holdings Limited
% of shares held	57.79%
Legal representative	Yang Rongming
Date of establishment	7 August 1996
Registered capital	RMB1,007.7 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture chemical medicine, Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.

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



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

4.3.5 Public float

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

4.3.6 Pre-emptive rights

According to the Articles of Association of the Company and the laws of the PRC, there is no pre-emptive right, which would oblige the Company to issue new shares to existing shareholders on a pro-rata basis.

5. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

5.1 Change of Directors', Supervisors' and Senior Management's interest in the shares of the Company and their emoluments

Name	Title	Gender	Age	Tenure of office	Shares	Shares	Reason for change	Emoluments	Whether
					held as at 1 January 2006 (share)	held as at 31 December 2006 (share)		received from the Group (RMB'000)	received emoluments from shareholder units or related units
Yang Rongming	Chairman	Male	53	From 1 Nov 2004 till the election of the new board members	—	—	—	—	Yes
Chen Zhinong	Executive Director	Male	46	From 15 June 2006 till the election of the new board members	—	—	—	—	Yes
Feng Zansheng	Executive Director	Male	56	From 26 March 2004 till the election of the new board members	—	—	—	611	No
Wu Zhang	Independent Non-executive Director	Male	49	From 26 March 2004 till the election of the new board members	—	—	—	80	No
Wong Hin Wing	Independent Non-executive Director	Male	44	From 26 March 2004 till the election of the new board members	—	—	—	80	No
Zhang Heyong	Independent Non-executive Director	Male	67	From 26 March 2004 till the election of the new board members	—	—	—	80	No
Zhou Yuejin	Vice Chairman	Male	49	From 26 March 2004 to 27 April 2006	28,900	37,570	Bonus shares as a result of the Share Reform Plan	232	No

Xie Bin	Director & General Manager	Male	49	From 30 June 2005 to 15 June 2006	1,000	1,300	Bonus shares as a result of the Share Reform Plan	377	No
Chen Canying	Chairman of the Supervisory Committee	Male	57	From 26 March 2004 till the election of the new Supervisory Committee	9,800	12,740	Bonus shares as a result of the Share Reform Plan	—	Yes
Ouyang Qiang	Supervisor	Male	45	From 26 March 2004 till the election of the new Supervisory Committee	10,100	13,130	Bonus shares as a result of the Share Reform Plan	157	No
Zhong Yugan	Supervisor	Male	50	From 26 March 2004 till the election of the new Supervisory Committee	—	—	—	30	No
Shi Shaobin	General Manger	Male	39	From 15 June 2006 till the election of the new board members	—	—	—	622	No
He Shuhua	Deputy General Manager & Company Secretary	Male	50	From 28 April 2004 till the election of the new board members	27,700	36,010	Bonus shares as a result of the Share Reform Plan	299	No
Su Guangfeng	Deputy General Manager	Male	43	From 28 April 2004 till the election of the new board members	—	—	—	454	No
Chen Binghua	Financial controller	Male	41	30 Dec 2005 till the election of the new board members	4,800	6,240	Bonus shares as a result of the Share Reform Plan	195	No
Total	/	/	/	/	82,300	106,990	/	3,217	/

Notes: (1) Mr. Zhou Yuejin resigned on 27 April 2006. His emoluments for the Year were the emoluments received from the Company as taking his original duties for the period from 1 January 2006 to the date of his resignation;

(2) Mr. Xie Bin resigned on 15 June 2006. His emoluments for the Year were the emoluments received from the Company as taking his original duties for the period from 1 January 2006 to the date of his resignation;

- (3) Mr. Shi Shaobin was appointed on 15 June 2006. His emoluments for the Year were the emoluments received from a subordinated company of the Company as taking his original duties for the year;
- (4) Mr. Ouyang Qiang has been the factory manager of Guangzhou Chen Li Ji Pharmaceutical Factory, a subsidiary of the Company, since July 2006. His emoluments for the Year include the emoluments received from the subsidiary from July to December of the Year;
- (5) The emoluments of Mr. Feng Zansheng and Mr. Su Guangfeng for the Year were the emoluments they received from the Company's subsidiaries as taking their duties, and the emoluments of Mr. Wu Zhang, Mr. Wong Hin Wing, Mr. Zhang Heyong, Mr. Zhong Yugan, Mr. He Shuhua and Mr. Chen Binghua were the emoluments they received from the Company for the Year.

6. REPORT OF THE DIRECTORS

6.1 Management Discussion and Analysis

1. Scope of business

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine (“CPM”); (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; and (3) research and development of natural medicine and biological medicine.

2. Analysis of operating results

The year 2006 marked a start under the 11th Five-Year Plan of the Company, in which the Company faced new opportunities and challenges. During the Year, policies for adjustment of and fixing the prices of medicine were introduced. Anti-corruption measures were implemented in order to curb the briberies, regulating and restoring order in the pharmaceutical market. Coupled with the stricter supervision of the domestic pharmaceutical industry, there have dramatic changes in the operational environment of the domestic pharmaceutical manufacturing industry and the distribution industry.

Amid the adverse factors of increasingly fierce domestic competition in 2006, the Company stuck to the idea of “realization of rapid growth in both sales and scale through technological innovation with marketing innovation”. The Group took a series of effective measures to promote innovative technology, explore the market, integrate internal resources, effectively use the capital, and enhance fundamental internal management system, resulting in positive prospects for the Group’s operations.

For 2006, the Group recorded turnover of RMB10,241,004,000, up 13.46% as compared with 2005. The profit before tax amounted to RMB370,362,000, representing an increase of 20.74% over 2005 and net profit amounted to RMB 227,328,000, representing an increase of 23.23% over 2005. According to HKFRS, the Group recorded sales of RMB10,241,004,000 for the year, up 13.46% as compared with 2005. Profit before income tax amounted to RMB349,155,000, representing an increase of 10.67% over 2005 and profit attributable to equity holders of the Company amounted to RMB218,067,000, representing an increase of 10.24% over 2005.

In 2006, a breakdown of the operational results of the overall and principal operations of the Group is set out as follows:

Prepared in accordance with PRC Accounting Standards and System

Items	2006 (RMB'000)	2005 (RMB'000)	Growth (decrease) (YoY) (%)
Turnover	10,241,004	9,026,340	13.46
Include: Manufacturing	2,412,184	2,141,675	12.63
Trading	7,828,820	6,884,665	13.71
Profit before tax	370,362	306,741	20.74
Include: Manufacturing	278,466	231,705	20.18
Trading	91,896	75,036	22.47
Net profit	227,328	184,482	23.23
Include: Manufacturing	177,015	135,534	30.61
Trading	50,313	48,948	2.79

Prepared in accordance with HKFRS

Sales	10,241,004	9,026,340	13.46
Include: Manufacturing	2,412,184	2,141,675	12.63
Trading	7,828,820	6,884,665	13.71
Profit before income tax	349,155	315,493	10.67
Include: Manufacturing	260,772	245,829	6.08
Trading	88,383	69,664	26.87
Profit attributable to equity holders of the Company	218,067	197,804	10.24
Include: Manufacturing	174,538	152,088	14.76
Trading	43,529	45,716	(4.78)

During the Reporting Period, a number of measures were taken to enhance the Manufacturing Operations of the Group in the following areas: (1) Resources were devoted to promote the image of both the brands and products through various means and channels. It also made earnest efforts to improve the distribution network and to further explore the three major end markets, namely hospitals, retail vendors, and communities and rural markets. During the Year, the Group successfully held product exhibitions and customers' parties in various cities such as Qingdao, Nanjing and Tang Shan. In addition, the Group actively launched a football promotion campaign and made good use of the GPL's Annual Technology Innovation and Medicine Safety Forum (廣藥集團年度科技創新暨用藥安全高峰論壇) and the awards of "China Time-honored Brand" (「百年中華老字號」) to its numerous brands, including Wang Lao Ji, Jing Xiu Tang, Pan Gao Shou and Cai Zhi Lin, to enhance the Group's image and reputation as the largest Chinese Patent Medicine producer with many "China Time-honored Brands" and facilitate the development of the Company's core business. (2) The Group strengthened strategic cooperation with major distributors throughout China and through other effective distribution management measures to increase the market prices of products in a steady and gradual manner, striving to explore market for core products such as diabetes curing medicine, cerebrovascular medicine, heat clearing and anti-toxic, cough and phlegm clearing; (3) More resources were allocated by the Group on research and development as well as mass production of new products. During the Year, production approval for Kun Xian Capsule (formerly known as "Feng Shi Ping Capsule") was granted. The initial preparation work for marketing activities is currently in progress. Clinical research on rabies bacterin was completed and application for the production approval is also under way. (4) The internal control was further strengthened down to the base-level. On the financial aspect, better controls over budget, funding and receivables were implemented; on the operations aspect, higher standards were set to minimize operations risks.

In 2006, there were 36 products whose sales income exceeded RMB10 million, of which annual sales income exceeding RMB100 million included Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xia Shang Ju Ke Li and the series of Wang Lao Ji Guangdong Liang Cha, the annual sales income of 14 products ranged from RMB30 million to RMB100 million and the annual sales income of 18 products ranged from RMB10 million to RMB30 million. The sales income for the Year of certain key products such as Wang Lao Ji Qing Liang Cha, Zhui Feng Tou Gu Wan, Mi Lian Chuan Bei Pi Pa Gao, Hua Zhi Shuan, Xia Sang Ju Ke Li, Guangdong Liang Cha Ke Li and Xiao Er Qi Xing Cha increased significantly by 133.20%, 43.21%, 35.98%, 75.66%, 17.64%, 24.14% and 53.72% respectively as compared with the previous year.

During the Reporting Period, sales of heat clearing and anti-toxic medicine, cough and phlegm clearing medicine, diabetes curing medicine and arthritis curing medicine for the Manufacturing Operations increased by 26.41%, 6.08%, 9.22% and 16.49% as compared with the previous year respectively, while sales of gastric medicine decreased by 19.58% as compared with the previous year.

During the Reporting Period, the Group took the following measures in the Trading Operations of the Group: (1) In response to the changing State policy and market situation, the Group adjusted its operating strategy of the Trading Operations. While the existing products sold by the Group in the capacity of agent would continue, exploration of new products with market potential as well as expansion of distribution networks and markets beyond the province were actively pursued; (2) The Group enhanced the communication and cooperation with its suppliers to help them further expand the sales. In the meantime, while we continued our efforts in the sales of key products from large joint venture importers, we spent great efforts to look for and promote domestic non-patent protected medicines in a bid to ensure continuous growth of sales; (3) Measures were taken to improve credit control and receivable monitoring mechanism to minimize operations risks; (4) The Group continued to adjust to optimize its retail business. Diversification of products and expansion of product types would continue. New operating modes would be explored so as to enhance the market power of the Group and its products.

As of 31 December 2006, the Group had 142 retail chain pharmacies, including 86 “Cai Zhi Lin” which specialize in traditional Chinese medicines and 55 “Jian Min” which specialize in chemical medicines as well as one pharmacy named Ying Bang.

6.1.1 The possible changes of accounting policies and accounting estimates of the Group after carrying out new Accounting Standards for Enterprises and their effects to financial conditions and operating results of the Group

Applicable Not applicable

From 1 January 2007, the Group applies new Accounting Standards for Business Enterprises. A detailed analysis of its effect on the accounting policies, accounting estimates and the financial position and results from operations of the Group are set out as follows:

1. Scope of consolidated financial statement: the interests in joint ventures are no longer proportionally consolidated. Instead, equity method is used for consolidation. In 2006 and previous years, proportional consolidation method was used for consolidating financial statements of joint ventures such as Wang Lao Ji based on the shareholding attributable to the Company. In accordance with “Accounting Standards for Business Enterprise No. 33 — Consolidated Financial Statements” and “Accounting Standards for Business Enterprises No.2 — Long-term Equity Investment”, equity method will be used for long-term investment in joint ventures and such investments will no longer be consolidated since the year 2007. The change of this accounting policy will affect the results from operations of the Group recorded in the consolidated financial statements, meaning that the profit of the owners of the Company will be affected. For example, for the 2006 consolidated financial statements of the Group, in accordance with the new

accounting principles, the total assets recorded in the consolidated balance sheet would be decreased by approximately 0.52% when compared with the original balance sheet. The principal operations income and the relevant costs in the consolidated income statement would be decreased by 1.29% and 1.56% correspondingly while the net profit would be increased by 0.51%.

2. As of 31 December 2006, the Group separately assessed the value of its investment properties in accordance with the “Accounting Standards for Business Enterprises No. 3 — Investment Property” and adopted the cost method for the additional supplementary calculation with the absence of retrospective adjusted items.
3. The financial statements of the Group on the first adoption date involves such modified accounting policies with retrospective effect as “Accounting Standards for Business Enterprises No. 2 — Long-term Equity Investment”, “Accounting Standards for Business Enterprises No. 13 — Contingent Events”, “Accounting Standards for Business Enterprises No. 18 — Income Tax”, “Accounting Standards for Business Enterprises No. 20 — Business Combination”.
 - (1) Take the 2006 income statements as an example, the effect on the results from operation resulting from such changes of accounting principles would be reflected by an increase of RMB6,243,000 in consolidated net profit in 2006, representing a net increase of 2.75% in profit when compared with the original income statements. Among which, an increase in the deferred income tax assets would result in a decrease of RMB1,059,000 in net profit. Such changes of accounting policies would not significantly affect the results from operations of the Group.

- (2) The retrospective adjustment to relevant transactions and matters resulting from the changes of accounting policies will result in an increase of RMB2,276,000 in the Group's shareholders' funds, representing approximately 0.08% of net assets as at 31 December 2006. Among which, an increase in the deferred income tax assets will result in an increase of RMB60,644,000 in the retained profit. An increase in the estimated liabilities of employee benefits in medical insurance will result in a decrease in the retained profit by RMB55,071,000. Because of the effects of the new standards (which change the scope of consolidation), the retained profit declined by RMB 100,000. The debit balance of long-term equity investments will result in a decrease in the retained profit by RMB2,285,000. The written off of the remaining value of the goodwill will result in a decrease of RMB912,000 in the retained profit. The retrospective adjustment to such accounting policies will not significantly affect the shareholder's funds of the Group.
4. The accounting estimates adopted by the Group include depreciable life of fixed assets, depreciable life of investment properties, amortization period of land use right of the intangible assets. The adoption of new "Accounting Standards for Business Enterprises" will not result in a change of such accounting estimates.

In conclusion, the adoption of the new "Accounting Standards for Business Enterprises" mainly affects the consolidated scope of the consolidated financial statements of the Group. Accounting estimates, the financial position and results from operations of the Group will not be significantly affected.

6.2 Analysis of principal activities of the Company by business and by product

Business / product	Sales (RMB'000)	Cost of sales (RMB'000)	Gross Profit margin (%)	Change in sales as compared with 2005 (%)	Change in cost of sales as compared with 2005 (%)	Change in gross profit margin as compared with 2005 (%)
Principal activities:						
CPM manufacturing	2,412,184	1,153,546	51.39	12.63	12.51	0.23
Trading	7,828,820	7,318,682	6.43	13.71	13.51	2.81
Include: Wholesale	7,267,373	6,845,735	5.73	14.53	14.33	3.14
Retail	335,872	263,183	21.34	5.40	3.42	7.62
Imports & Exports	225,575	209,764	6.89	2.21	2.02	0.87
Sub-total						
Total	10,241,004	8,472,228	17.02	13.46	13.37	0.50
Include: connected transactions	236,980	222,625	5.81	17.73	18.51	(9.33)
Heat clearing and anti-toxic	627,938	325,004	47.46	26.41	26.69	(0.09)
Include: herb tea series (note)	180,672	104,291	41.49	129.19	128.51	0.59
Diabetes curing	444,000	140,082	67.66	9.22	2.13	3.46
Cough and phlegm clearing	269,633	115,390	56.42	6.08	4.92	0.97
Anthrithis curing	284,232	116,640	58.18	16.49	27.53	(5.65)
Gastric	79,751	42,431	46.01	(19.58)	(21.19)	2.59
Other products	706,629	413,999	40.63	10.23	10.03	0.43
Including: connected transactions	8,521	7,103	15.86	78.97	107.58	(41.87)

Pricing policy for connected transactions

The sale and purchase transactions with the Group and its connected parties were conducted at the terms similar to those transactions with other third parties. The prices were decided on arm's length after considering the relevant government pricing and market development.

Explanation on the necessity and continuity of connected transactions

The Company's subsidiary, Guangzhou Pharmaceutical Imports & Exports Corporation ("Pharmaceutical Imports & Exports Corporation"), is mainly engaged in the imports and exports of pharmaceutical products, raw materials and medical apparatus and purchased raw materials and pharmaceutical products on behalf of entities including connected parties. Other trading subsidiaries of the Company, mainly engaged in the trading of pharmaceutical products, purchased /sold pharmaceutical products from/to connected parties. The above constituted the necessity and continuity of connected transactions

Notes:

- (1) Herb tea series includes Wang Lao Ji Qing Liang Cha and Xing Qun Xia Sang Ju drinks.
- (2) In the above chart, the sales of the products of Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji") were calculated by the percentage of shareholding in Wang Lao Ji by the Company, namely 48.0465%.

The total amount of sale of products from the Group to GPLH together with its subsidiaries and their respective associates was RMB236,980,000 during the Reporting Period.

6.3 Geographical analysis of principle business

Region	Turnover <i>(RMB'000)</i>	Change as compared with 2005 <i>(%)</i>
Southern China	8,275,964	13.75
Eastern China	768,921	21.46
Northern China	337,579	3.50
North-Eastern China	217,663	9.63
South-Western China	393,166	12.70
North-Western China	142,033	2.71
Exports	105,678	(0.36)
Total	10,241,004	13.46

6.4 Details of operating results of the Company's subordinated enterprises

Applicable

Not applicable

Name	Percentage of direct holding by the Company (%)	Sales income for the Year (RMB'000)	Profit for the Year (RMB'000)	Net profit for the Year (RMB'000)
Guangzhou Xing Qun Pharmaceutical Co., Ltd	88.99	328,257	42,002	28,594
Guangzhou Zhong Yi Pharmaceutical Co., Ltd	100.00	651,876	124,770	84,205
Guangzhou Chen Li Ji Pharmaceutical Factory	100.00	176,603	20,340	12,523
Guangzhou Qi Xing Pharmaceutical Co., Ltd	75.00	356,530	54,266	40,295
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd ("Jing Xiu Tang")	88.40	207,295	17,295	17,295
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd ("Pan Gao Shou")	87.77	271,620	22,531	16,800
Wang Lao Ji	48.0465	661,945	73,107	73,107
Guangzhou Huan Ye Pharmaceutical Co., Ltd ("Guangzhou Huan Ye")	100.00	34,794	163	57
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	24,322	321	321
Guangzhou Bai Di Bio-technology Co.,Ltd	95.69	133	(12,779)	(12,779)

Guangzhou Han Fang Contemporary Chinese Medicine Research & Development Co., Ltd ("Guangzhou Han Fang")	70.04	6,539	(23,762)	(23,762)
Guangzhou Pharmaceuticals Corporation ("Pharmaceuticals Corporation")	90.09	7,384,448	100,020	61,102
Guangzhou Chinese Medicine Corporation	100.00	1,093,020	(808)	(857)
Pharmaceutical Import & Export Corporation	100.00	321,042	3,462	1,841
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	51.00	29,206	(560)	(621)

6.5 Use of proceeds from issue of A shares

Applicable Not applicable

As at the end of the Reporting Period, the use of proceeds from the issue of A shares was in line with the undertakings made in the prospectus for the issue of A shares.

The net proceeds from the issue of A shares were approximately RMB737,990,000. The portion exceeding the budgeted proceeds amounting to RMB29,690,000 was used as additional working capital. As at 31 December 2006, the amount utilized was RMB695,540,000, and an unused remaining amount was RMB42,450,000. Save as the following projects, proceeds were invested as scheduled.

Total proceeds raised (RMB'000) 737,990 **Total amount of proceeds utilized during the Reporting Period (RMB'000) 13,400**

Accumulated amount of proceeds utilized (RMB'000) 695,540

Projects	Budgeted injection from proceeds (RMB'000)	change in projects	Funds injected (RMB'000)	Investment return for the Reporting Period	Agreed with the planned stage of completion	Agreed with the estimated return
Industrialization of Wei Re Qing	29,000	No	25,960	No new return generated	No	No
Technology upgrade of throat, spleen and intestine pills	29,100	No	25,830	An increase of sales of RMB26,700,000 and a gross profit of RMB13,350,000	No	Yes
Industrilisation of Fu Yan Soluble Tablets	29,500	No	24,060	No new return generated	No	No
Cai Zhi Lin	59,500	No	29,260	An increase of sales of RMB14,750,000	No	No

Explanation on returns on the projects and the state of completion (on individual project)

Among these, projects such as Fu Yan Soluble Tablets and Wei Re Qing Capsules were postponed due to market changes, and the expansion of chain pharmacies had slowed down as a result of keen competition in the domestic pharmaceutical market.

Change in projects

Applicable Not applicable

6.6 Details of investments other than those with proceeds of A shares

Applicable Not applicable

6.7 The explanation of the Company's Board on the qualified opinion issued by the auditors

Applicable Not applicable

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

The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with RPC Accounting Standards and Systems and the amount determined in accordance with HKFRS. The Board recommended a final dividend of RMB0.084 per share (including withholding tax for A Shares) for 2006 (2005: RMB0.07). The proposed final dividend will be submitted to the forthcoming 2006 Annual General Meeting for consideration and approval.

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

No profit distribution scheme is proposed while the Company records profit during the Reporting Period

Applicable Not applicable

6.9 Final dividend for the year 2006

The Board recommended a final dividend of RMB0.084 per share for the year ended 31 December 2006. The annual general meeting for 2006 for the Company is scheduled to be held at 10:00 a.m. on Friday, 15 June 2007. The Register of Members of the Company will be closed from Wednesday, 16 May 2007 to Thursday, 15 June 2007 (both days inclusive) during which no transfer of H Shares will be effected. Holders of H shares of the Company, who are entitled for the final dividend for the year 2006, should deposit all of the share transfer documents together with relevant share certificates to the share registrar of the company in Hong Kong, namely Hong Kong Registrars Limited, which is located on 46th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for share transfer registration at or before 4:00 p.m. on 15 May 2007.

6.10 Liquidity

As at 31 December 2006, the current ratio of the Company was 1.60 (31 December 2005: 1.55), and its quick ratio was 1.04 (31 December 2005: 0.98). Accounts receivable turnover rate was 10.35 times, representing a decrease of 5.59% as compared with that of 2005. Inventory turnover rate was 6.85 times, representing an increase of 1.99% as compared with last year.

6.11 Financial resources

As at 31 December 2006, cash and cash equivalents of the Group amounted to RMB489,128,000, out of which 95.97% and 4.03% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2006, the Group had bank borrowings of RMB888,199,000 in total, which were all short-term borrowings (31 December 2005: RMB867,785,000).

6.12 Capital structure

As at 31 December 2006, the Group's current liabilities amounted to RMB2,384,082,000 (31 December 2005: RMB2,236,332,000), representing an increase of 6.61% over that of 2005, and its long-term liabilities was RMB71,154,000 (31 December 2005: RMB54,826,000), with an increase of 29.78% as compared with 2005. The shareholders' funds of the Group as at 31 December 2006 amounted to RMB2,788,088,000 (31 December 2005: RMB2,621,437,000), with an increase of 6.36% as compared with 2005.

6.13 Capital expenditure

The Group expects the capital expenditure for 2007 to amount to approximately RMB227 million (2005: RMB102 million), which will be mainly applied in the construction of manufacturing facilities and equipments. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

6.14 Gearing ratio

As at 31 December 2006, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 45.39% (31 December 2005: 44.94%), with an increase of 0.45 percentage point as compared with 2005.

6.15 Exposure to fluctuations in exchange rates

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

6.16 Main cash resources and its application

As at 31 December 2006, cash and cash equivalents of the Group amounted to RMB489,128,000, with a decrease of RMB127,855,000 as compared with that of 1 January 2006. The net inflow in cash and cash equivalents of the Group from operating activities amounted to RMB38,880,000, with a decrease of RMB107,442,000 as compared with last year, which was mainly attributable to the increase in accounts receivable, notes receivable and inventory.

6.17 Contingent liabilities

As at 31 December 2006, the Group has no significant contingent liabilities.

6.18 Charge on the Group's assets

At 31 December 2006, part of the Group's bank loans were secured by fixed assets with a net book value of RMB54,970,000.

6.19 Other events

6.19.1 The Company's purchase and disposal of assets (including subsidiaries or associated companies) or merger and acquisition activities

The Company entered into an equity transfer agreement with Hong Kong Xin Lian Hua Industrial Co., Ltd ("Xin Lian Hua") on 24 March 2006 in respect of a transfer of the 21.42% shareholdings of the Company in Nanfang Packaging Co., Limited (佛山市南方包装有限公司) to Xin Lian Hua at a consideration of RMB30,000,000. The equity transfer was completed.

6.19.2 Compliance with the Code on Corporate Governance Practices

Throughout the Year, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules of HKEx.

6.20 Employees of the Group

As at 31 December 2006, the number of employees on the payroll register of the Group was 8,223.

Including:	Production and supporting staff	3,639
	Sales personnel	2,335
	Technical and engineering	1,066
	Finance and statistics staff	308
	Other administrative staff	875
	Production and supporting staff	3,639

100 of the employees were holders of a master degree and 1,291 were holders of a bachelor degree. The number of retirees was 4,967. The total salary payment for the Year was approximately RMB418 million.

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

6.21 SUBSEQUENT EVENTS

1. A Share Transfer Arrangement was entered into between the Company as a transferee and GPLH, Anhui Huadong Chinese Medical Engineering Corporation Limited and five natural persons including Liu Juyan as transferors on 10 January 2007 in relation to 26.04% equity interests in Guangzhou Han Fang at a consideration of RMB23,299,010.

On the same day, Guangzhou Han Fang and Guangzhou Huan Ye, a wholly owned subsidiary of the Company, entered into a Merger Agreement (the “Agreement”), pursuant to which both parties have agreed to the merger of Guangzhou Han Fang and Guangzhou Huan Ye through the injection of the entire business, assets and liabilities of Guangzhou Huan Ye into Guangzhou Han Fang. Guangzhou Huan Ye will be terminated whereas the enlarged Guangzhou Han Fang will continue to exist on an ongoing basis after the Merger. Pursuant to the requirements under the Listing Rules of HKEx, the Company was transferred the equity interests in Guangzhou Han Fang held by GPLH and five natural persons including Liu Juyan, and the transaction between Guangzhou Han Fang and Guangzhou Huan Ye constitute connected transactions. The 29th Meeting of the Third Session of the Board was held on 10 January 2007, at which the aforesaid connected transactions were considered. The Independent Non-executive Directors expressed their independent opinions on such connected transactions, and Mr. Feng Zansheng abstained from voting in respect of the relevant resolution. Currently, the relevant procedures for approvals of the above transactions are in process.

2. On 17 January 2007, the Company agreed to purchase the Sui Kang Mansion from its subsidiary, Pharmaceuticals Corporation, at a consideration of RMB41,116,178. The relevant formalities in relation to the purchase were completed on 29 March 2007.

3. On 27 January 2007, Contract For The Transfer of Capital Contribution of Guangzhou Pharmaceuticals Corporation was entered into between Jing Xiu Tang and Pan Gao Shou, which are both subsidiaries of the Company, and 33 natural persons and Alliance BMP Limited (“Alliance BMP”). On the same day, the Company and Alliance BMP entered into Contract For the Increase of Registered Capital of Guangzhou Pharmaceuticals Corporation, Joint Venture Contract and the Articles of Association of Guangzhou Pharmaceuticals Corporation (Revised and restated). The 30th meeting of the Third Session of the Board was held on 26 January 2007, at which the equity transfer and the capital increase (the “Event”) were considered, and Mr. Feng Zansheng abstained from voting in respect of the relevant resolution.

The Event has been submitted to be considered by respective shareholders at the First Extraordinary General Meeting of the Company in 2007, the First Class Meeting of Holders of Overseas-listed Foreign Shares in 2007 and the First Class Meeting of Holders of Domestic Shares in 2007 as required, as it has resulted in a material dilution of the Company’s interests in Pharmaceuticals Corporation. The Event has been approved successfully. Currently, relevant procedures regarding approvals from relevant authorities are in process.

4. After the Reporting Period, the changes of shareholdings in all tradable shares held by holders holding shares subject to selling restrictions of the Company are set as follows:

Shareholder's name	Number of shares held before change (share)	Number of shares involved in the change (share)	Reason of the change	Date of the change	Number of shares held after change (share)
GPHL	468,603,509	(56,090,000)	Transferred by way of court ruling	—	412,513,509
Guangzhou Beicheng Rural Credit Cooperative	0	46,670,000	Transferred by way of court ruling	23 March 2007	46,670,000
Guangzhou Xinjiao Rural Credit Cooperative	0	4,220,000	Transferred by way of court ruling	9 February 2007	4,220,000
Guangzhou Xinfeng Rural Credit Cooperative	0	3,480,000	Transferred by way of court ruling	9 February 2007	3,480,000
Guangzhou Baiyun Rural Credit Cooperative	0	1,720,000	Transferred by way of court ruling	23 March 2007	1,720,000

7. OTHER EVENTS

7.1 Purchase of Assets

Applicable Not applicable

7.2 Guarantees

Applicable Not applicable

Guarantees provided to parties other than the Company's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties
—	—	—	—	—	—	—

Accumulated amount of guarantees provided during the Reporting Period (RMB'000)

—

Balance of guarantees as at the end of the Reporting Period (RMB'000)

—

The Company's guarantees provided to its subsidiaries

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

364,080

Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)

364,080

**The Company's guarantees
(including those provided
to its subsidiaries)**

Total amount of guarantees provided (<i>RMB'000</i>)	364,080
% of the net assets of the Company	13.06

Include:

Amount of guarantees provided to the Company's shareholders, beneficial owner(s) and other other connected parties (<i>RMB'000</i>)	Nil
Direct or indirect gurantees provided to entities with a gearing ratio of over 70% (<i>RMB'000</i>)	364,080
Amount of gurantees provided which exceeds 50% of the total net assets of the Company (<i>RMB'000</i>)	Nil
Total (<i>RMB'000</i>)	364,080

Save disclosed above, the Company had not provided any guarantees to any parties in which it holds less than 50% equity interests during the Reporting Period.

7.3 Material connected transactions

7.3.1 Continuing connected transactions

Applicable

Not applicable

Connected parties	Products sold to/ service provided to connected parties		Products purchased from/ service provided by connected parties	
	Amount (RMB'000)	Percentage of the same type of transactions (%)	Amount (RMB'000)	Percentage of the same type of transactions (%)
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.	59,487	0.58	13,336	0.15
Guangzhou Ming Xing Pharmaceutical Co., Ltd	18,265	0.18	33,003	0.38
Guangzhou Tian Xin Pharmaceutical Co., Ltd.	11,181	0.11	45,411	0.53
Guangzhou He Ji Gong Pharmaceutical Co., Ltd.	3,967	0.04	37,725	0.44
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	49,965	0.49	74,093	0.86
Guangzhou Hua Nan Medical Apparatus Co., Ltd	—	—	33	—
Guangzhou Pharmaceutical Properties Industrial Co., Ltd	—	—	3	—
Pl Lian Development Co., Ltd.	—	—	232,899	2.70
Guangzhou Pharmaceutical Industrial Research Institute	7	—	—	—
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	11,459	0.11	52,769	0.61
Guangzhou Baiyunshan Pharmaceutical General Factory	26,513	0.26	52,057	0.60
Guangzhou Baiyunshan Chemical Pharmaceutical Factory	13,729	0.13	7,606	0.09
Guangzhou Baiyunshan External Use Pharmaceutical Co., Ltd.	2,191	0.02	7,012	0.08
Guangzhou Medical Material Supply Corporation	—	—	3	—
Guangzhou Pharmaceutical Economic and Development Corporation	22	—	13	—
Wang Lao Ji	40,194	0.39	96,605	1.12
Total	236,980	2.31	652,567	7.57

7.3.2 Funds to/from connected parties

Applicable Not applicable

Connected parties	Funds to connected parties		Funds from connected parties	
	Initial amount (RMB'000)	Balance (RMB'000)	Initial amount (RMB'000)	Balance (RMB'000)
Receivables and payables				
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.	69,600	34,767	15,603	19
Guangzhou Ming Xing Pharmaceutical Co., Ltd	21,370	1,081	38,613	131
Guangzhou Tian Xin Pharmaceutical Co., Ltd.	13,082	1,413	53,130	45
Guangzhou He Ji Gong Pharmaceutical Co., Ltd	4,641	701	44,138	—
Guangzhou Guang Hua Pharmaceutical Co., Ltd	58,459	6,901	86,689	8,477
Guangzhou Hua Nan Medical Apparatus Co., Ltd	—	—	39	23
Guangzhou Pharmaceutical Properties Industrial Co., Ltd	—	—	3	3
Po Lian Development Co., Ltd	—	—	232,899	28,229
Guangzhou Pharmaceutical Industrial Research Institute	8	—	—	—
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	13,408	693	61,739	—
Guangzhou Baiyunshan Pharmaceutical General Factory,	31,020	3,919	60,906	65
Guangzhou Baiyunshan Chemical Medicine Factory	16,063	3,267	8,899	702
Guangzhou Baiyunshan External Use Pharmaceutical Co., Ltd.	2,563	858	8,205	421
Guangzhou Medical Material Supply Corporation	—	—	3	2
Guangzhou Pharmaceutical Economic and Development Corporation	26	26	15	15
Wang Lao Ji.	47,027	509	113,028	3,393
Sub-total	277,267	54,135	723,909	41,525
Pre-payments and payments in advance				
Guangzhou Ming Xing Pharmaceutical Co., Ltd	8,547	8,376	139	—
Guangzhou Tian Xin Pharmaceutical Co., Ltd.	1,543	1,543	—	—
Guangzhou He Ji Gong Pharmaceutical Co., Ltd	1,656	129	—	—
Guangzhou Guang Hua Pharmaceutical Co., Ltd	18,748	8,748	8,250	251
Po Lian Development Co., Ltd	9,369	9,369	—	—
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	342	345	—	—
Guangzhou Baiyunshan Pharmaceutical General Factory	—	—	679	437
Sub-total	40,205	28,510	9,068	688
Other receivables and payables				

GPHL	86	4,071	15,068	16,994
Guangzhou Hua Nan Medical Apparatus Co., Ltd	—	100	—	—
Po Lian Development Co., Ltd	—	—	82	82
Guangzhou Medical Material Supply Corporation	—	—	—	3,000
Wang Lao Ji	362	362	—	97
Guangzhou Pharmaceutical Soccer Club Co., Ltd.	—	—	1,000	1,000
Sub-total	448	4,533	16,150	21,173
Total	317,920	87,178	749,127	63,386

The initial amount of funds provided to the Company's controlling shareholder and its subsidiaries during the Reporting Period amounted to RMB317,920,000, and the balance was RMB87,178,000.

7.3.3 Details of appropriation of capital by connected parties and settlement in 2006

Applicable Not applicable

Increase in the amount of funds appropriated by connected parties during the Reporting Period

Applicable Not applicable

7.3.4 Remedies proposed by the Board in respect to the unsettlement of appropriation of capital by connected parties

Applicable Not applicable

7.4 Entrusted investments

Applicable Not applicable

7.5 Performance of undertakings

7.5.1 Special undertakings made by holders of the previously non-circulating shares of the Company and their performance

Applicable Not applicable

Name of shareholders	Special commitments	Performance	Note
GPHL	The non-circulating shares held by GPHL shall not be listed and traded, nor transferred within 12 months from the date of implementation of the share reform plan. Upon the expiry of that 12 months period, GPHL will not dispose of its shares (which are originally non-circulating shares) which exceeds 5% and 10% of the total number of the issued shares of the Company in the following 12 months and 24 months respectively.	Executed	Nil
Greatwall Corporation	The non-circulating shares held by Greatwall Corporation shall not be listed and traded nor transferred within 12 months from the implementation of the share reform plan.	Executed	Nil

7.5.2 Schedule for share reform

Applicable Not applicable

7.6 Material litigation and arbitration

Applicable Not applicable

7.7 Performance of duties by Independent Non-executive Directors

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

7.7.1 Attendance of Board meetings by Independent Non-executive Directors

Independent Non-executive Directors	Required	Meetings	Meetings	
	Meetings	attended	attended	Absence
	Attendance	in person	by proxy	(frequencies)
		(frequencies)	(frequencies)	(frequencies)
Mr. Wu Zhang	10	10	/	/
Wong Hin Wing	10	10	/	/
Zhang Heyong	10	10	/	/

7.7.2 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 Board resolutions of the Company for the Year.

7.7.3 Independence of the Independent Non-executive Directors

The Board confirmed 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 HKEx. The Board considers the existing Independent Non-executive Directors to be independent persons and to be in compliance with the relevant provisions of Rule 3.13 of the Listing Rules of HKEx.

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 or Senior Management of the Company, the Company's controlling shareholder or their respective connected persons.

7.7.4 The Audit Committee

The Audit Committee of the Board consists of three Independent Non-executive Directors, one of whom has appropriate professional accounting qualifications. The Audit Committee has reviewed the accounting policies, accounting regulations and methods adopted by the Group, and discussed with the management about the audit, internal controls and financial reporting. The Audit Committee has also reviewed the audited annual financial reports for the year ended 31 December 2006.

8. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company considers that the the operations, financial conditions, use of proceeds of A shares, acquisitions or disposal of assets and connected transactions of the Company have been in compliance with relevant laws and regulations.

9. FINANCIAL REPORTS

9.1 Audit Opinion

The Group and the Company's accounts for the year ended 31 December 2006 were audited by Guangdong Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report [(2007) Yang Cha Zi No. 200704006968] signed by the two Chinese certified public accountants, Ms. Wu Jiali and Mr. Ye Weixiang.

PricewaterhouseCoopers are the Company's international auditors, who issued an unqualified audit opinion on accounts of the Group and the Company for the year ended 31 December 2006, which were prepared in accordance with HKFRS.

9.2 Financial reports prepared in accordance with PRC Accounting Standards and Systems (audited)

Balance sheet of the Group and the Company as at 31 December 2006

Items	The Group		The Company	
	As at 31 December 2006 (RMB)	As at 1 January 2006 (RMB)	As at 31 December 2006 (RMB)	As at 1 January 2006 (RMB)
Assets:				
Current assets:				
Cash	489,127,579.61	616,982,949.00	64,731,299.07	90,102,690.07
Short-term investments	—	10,902,520.00	424,000,000.00	372,902,520.00
Notes receivable	380,009,988.97	331,753,863.41	241,335.00	—
Dividends receivable	—	3,709,259.53	10,000,000.00	7,720,145.68
Interest receivable	—	—	—	—
Accounts receivable	1,356,441,652.87	959,776,870.53	25,967,163.20	—
Other receivables	77,295,204.75	64,432,895.76	207,336,888.90	166,931,572.06
Advances to suppliers	179,591,876.36	196,548,528.21	5,168,611.88	—
Subsidies receivable	4,611,755.34	3,361,927.18	—	—
Inventories	1,326,443,190.41	1,148,568,922.06	9,973,596.57	—
Prepaid expenses	1,190,252.35	120,665,259.48	—	—
Long-term debt investments				
maturing within one year	—	—	—	—
Other currents asset	—	—	—	—
Total currents assets	3,814,711,500.66	3,456,702,995.16	747,418,894.62	637,656,927.81
Long-term investment				
Long-term equity investment	75,888,816.73	70,195,741.17	2,132,494,302.74	2,025,934,634.58
Long-term debt investment	—	—	—	—
Total long-term investment	75,888,816.73	70,195,741.17	2,132,494,302.74	2,025,934,634.58
Include: difference				
in consolidation	3,308,824.44	3,828,294.03	—	—
Include: difference in				
equity investment	—	—	2,050,204.88	2,351,531.83

Fixed assets				
Fixed assets-cost	2,033,978,454.01	1,974,405,781.70	44,496,545.75	41,236,900.52
Less: accumulated				
depreciation	742,417,277.96	658,927,334.13	22,664,476.14	17,535,891.44
Fixed fassets-net				
book value	1,291,561,176.05	1,315,478,447.57	21,832,069.61	23,701,009.08
Less: fixed assets				
impairment				
provision	16,991,377.83	17,902,314.55	—	—
Fixed assets-net				
book value	1,274,569,798.22	1,297,576,133.02	21,832,069.61	23,701,009.08
Construction supplies	—	—	—	—
Construction in progress	123,400,529.51	159,910,405.52	—	—
Fixed assets pending				
for disposal	—	—	—	—
Total fixed assets	1,397,970,327.73	1,457,486,538.54	21,832,069.61	23,701,009.08
Intangible assets and				
 other assets				
Intangible assets	111,397,998.07	98,677,683.80	—	—
Long-term prepaid expenses	9,444,392.52	15,031,582.69	—	912,355.01
Other long-term assets	—	—	—	—
Total intangible assets and				
 other assets	120,842,390.59	113,709,266.49	—	912,355.01
Deferred taxation				
Deferred tax debits	—	—	—	—
Total assets	5,409,413,035.71	5,098,094,541.36	2,901,745,266.97	2,688,204,926.48

Liabilities and				
shareholders' funds:				
Current liabilities				
Short-term loans	888,199,069.88	867,785,368.60	30,000,000.00	40,000,000.00
Notes payable	206,700,018.28	86,008,063.38	—	—
Accounts payable	861,098,479.40	869,696,059.12	22,722,272.99	—
Advances from customers	47,942,658.87	31,129,313.34	2,862,266.76	—
Accrued payroll	31,064,173.07	45,376,812.42	1,447,086.34	1,734,915.18
Welfare benefits payable	44,824,740.84	52,939,978.26	3,606,043.16	3,487,779.14
Dividends payable	1,510,244.12	26,492.89	1,484,371.93	24,739.37
Taxes payable	36,804,038.02	24,377,413.61	5,941,754.21	390,052.43
Other levies payable	3,806,759.11	3,628,657.66	217,277.93	12,605.17
Other payables	248,738,381.51	191,144,199.01	7,424,011.23	5,887,062.42
Accrued expenses	13,393,292.08	14,220,101.58	2,438,473.04	2,430,164.70
Provision for				
foreseeable liabilities	—	—	—	—
Portion of long-term				
liabilities due within one year	—	50,000,000.00	—	—
Other current liabilities	—	—	—	—
Total current liabilities	2,384,081,855.18	2,236,332,459.87	78,143,557.59	53,967,318.41
Long-term liabilities				
Long-term loan	—	—	—	—
Debentures payable	—	—	—	—
Payables after one year	4,694,995.54	4,716,728.21	—	—
Government grants payable	66,458,857.71	50,109,349.38	—	—
Other long-term payables	—	—	—	—
Total long-term liabilities	71,153,853.25	54,826,077.59	—	—
Deferred tax				
Deferred tax credits	—	—	—	—
Total liabilities	2,455,235,708.43	2,291,158,537.46	78,143,557.59	53,967,318.41
Minority interests				
(consolidated)	166,089,379.65	185,499,251.78	—	—

Shareholders' funds				
Share capital	810,900,000.00	810,900,000.00	810,900,000.00	810,900,000.00
Less: investment returned	—	—	—	—
Net share capital	810,900,000.00	810,900,000.00	810,900,000.00	810,900,000.00
Capital surplus	1,153,220,469.96	1,149,453,755.66	1,152,269,928.36	1,148,510,273.74
Reserved fund	648,062,853.70	567,243,340.17	206,325,725.05	182,088,980.38
Include: statutory				
welfare fund	—	179,461,575.56	—	71,271,823.11
Less: unrecognized				
investment loss				
(consolidated)	—	—	—	—
Retained profit	175,904,623.97	93,839,656.29	654,106,055.97	492,738,353.95
Proposed dividends	68,115,600.00	56,763,000.00	68,115,600.00	56,763,000.00
Difference in				
foreign currency				
(consolidated)	—	—	—	—
Total shareholders' funds	2,788,087,947.63	2,621,436,752.12	2,823,601,709.38	2,634,237,608.07
Total liabilities and				
shareholders' funds	5,409,413,035.71	5,098,094,541.36	2,901,745,266.97	2,688,204,926.48

Profit and loss account for the Group and the Company for the year 2006

Items	The Group		The Company	
	2006	2005	2006	2005
	(RMB)	(RMB)	(RMB)	(RMB)
Sales	10,241,003,505.21	9,026,340,433.50	306,572,500.75	—
Less: Costs of sales	8,472,227,964.38	7,472,974,332.17	292,956,150.53	—
Taxes and levies	25,590,982.10	24,613,910.81	320,618.24	—
Profit from principal operations	1,743,184,558.73	1,528,752,190.52	13,295,731.98	—
Add: Profit from other operations	41,507,991.21	43,301,531.41	11,326,813.05	7,446,705.82
Less: Operating expenses	752,589,938.94	592,206,898.41	6,513,801.61	—
General and administrative expenses	619,990,387.06	628,434,629.66	29,473,895.16	24,099,918.37
Finance costs	45,359,599.64	43,098,471.57	(148,370.55)	(1,286,468.67)
Operating profit	366,752,624.30	308,313,722.29	(11,216,781.19)	(15,366,743.88)
Add: Investment income	7,105,537.51	(8,063,080.65)	260,345,607.14	201,914,521.18
Subsidy income	1,190,244.21	720,456.65	—	—
Non-operating income	5,197,621.33	6,194,512.31	14,719.86	3,883.97
Less: Non-operating expenses	9,883,551.10	424,826.14	23,790.66	(6,587,090.70)
Total profit	370,362,476.25	306,740,784.46	249,119,755.15	193,138,751.97
Less: Income tax	130,826,145.19	112,611,673.47	6,752,308.46	—
Less: Minority interests (consolidated)	12,208,584.32	9,647,562.96	—	—
Add: Investment loss unrecognized (consolidated)	—	—	—	—
Net profit	227,327,746.74	184,481,548.03	242,367,446.69	193,138,751.97
Add: Retained earnings				
brought forward	93,839,656.29	22,505,890.50	492,738,353.95	348,842,914.78
transfer from others	1,886,788.57	9,916,543.07	—	—
Profit distributable	323,054,191.60	216,903,981.60	735,105,800.64	541,981,666.75

Less: Transfer to statutory surplus reserves	46,889,253.85	38,561,412.17	24,236,744.67	19,313,875.20
Less: Transfer to statutory public welfare	—	28,896,962.62	—	9,656,937.60
Less: Transfer to staff bonuses and welfare fund (consolidated)	7,680,265.53	6,074,331.34	—	—
Less: Transfer to reserved fund	3,319,168.38	2,611,460.90	—	—
Less: Transfer to expansion fund	3,319,168.38	2,611,460.90	—	—
Less: Profit returned to investment	—	—	—	—
Profit distributable to shareholders	261,846,335.46	138,148,353.67	710,869,055.97	513,010,853.95
Less: Dividend for preferred shares	—	—	—	—
Less: Transfer to discretionary surplus reserves	29,178,711.49	24,036,197.38	—	—
Less: Dividend for ordinary shares	56,763,000.00	20,272,500.00	56,763,000.00	20,272,500.00
Less: Dividend for ordinary shares transferred to share capital	—	—	—	—
Retained earnings	175,904,623.97	93,839,656.29	654,106,055.97	492,738,353.95

Supplementary information

1. Gain from sale, disposal of a business unit	(118,223.76)	4,674.88	—	—
2. Loss due to natural disaster	—	—	—	—
3. Increase/decrease in total profit as a result of change in accounting policies	—	—	—	—
4. Increase/decrease in total profit as a result of change in accounting estimates	—	—	—	—
5. Losses from debt restructuring	—	—	—	—
6. Others	—	—	—	—

Cash Flow Statement of the Group and the Company for the year 2006

Items	The Group <i>(RMB'000)</i>	The Company <i>(RMB'000)</i>
1. Cash flows from operating activities		
Cash received from sales of goods or rendering services	11,523,779,844.23	214,048,002.03
Refund of tax and levies	12,204,580.12	4,041.66
Other cash received relating to operating activities	95,244,506.32	28,436,807.31
Sub-total of cash inflows	11,631,228,930.67	242,488,851.00
Cash paid for goods or services	9,633,213,931.50	220,154,726.37
Cash paid to and on behalf of employees	610,918,213.58	12,893,468.25
Payments of all type of taxes	528,640,651.73	4,962,999.96
Other cash paid relating to operating activities	819,575,700.19	28,772,910.47
Sub-total of cash outflows	11,592,348,497.00	266,784,105.05
Net cash flows from operating activities	38,880,433.67	(24,295,254.05)
2. Cash flows from investing activities		
Cash received from disposal of investments	42,602,566.02	40,000,000.00
Include: cash received from disposal of interests in subsidiaries	—	—
Cash received from investment income	23,879,545.33	152,484,561.61
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	6,100,919.40	—
Cash received from other investing activities	6,760,064.99	90,890,978.99
Sub-total of cash inflows	79,343,095.74	283,375,540.60
Cash paid to acquire fixed assets, intangible assets and other long-term assets	90,450,159.24	1,324,766.82
Cash paid to acquire investments	43,519,174.34	44,503,426.94
Other cash paid relating to investing activities	1,341,926.31	171,621,522.29
Sub-total of cash outflows	135,311,259.89	217,449,716.05
Net cash flows from investing activities	(55,968,164.15)	65,925,824.55

3. Cash flows from financing activities		
Cash received from capital contributions	—	—
Include: cash received from capital contributions from minority shareholders	—	—
Cash received from borrowings	782,165,894.58	60,000,000.00
Cash received from other financing activities	355,234,557.78	—
Sub-total of cash inflows from financing activities	1,137,400,452.36	60,000,000.00
Cash repayments of amounts borrowed	811,165,894.58	70,000,000.00
Cash payments for distribution of dividends, profit or interest expenses	123,300,884.88	56,853,552.59
Include: cash payments for distribution of dividends to minority shareholders by subsidiaries	21,747,016.72	—
Other cash payments relating to financing activities	313,552,902.90	—
Include: cash payments to minority shareholders by subsidiaries as a result of reduction in investments	—	—
Sub-total of cash outflows from financing activities	1,248,019,682.36	126,853,552.59
Net cash flows from financing activities	(110,619,230.00)	(66,853,552.59)
4. Effect of foreign exchange rate changes on cash	(148,408.91)	(148,408.91)
5. Net increase in cash and cash equivalents	(127,855,369.39)	(25,371,391.00)

Supplemental information

1. Reconciliation of profit to cash flows from/(to) operating activities

Net profit	227,327,746.74	242,367,446.69
Add: minority interests	12,208,584.32	—
Less: unrecognized investment losses	—	—
Add: provision for asset impairment	12,040,040.81	2,213,493.94
depreciation of fixed assets	117,220,541.84	3,435,156.49
amortization of intangible assets	5,783,610.45	—
amortization of long-term expenses	8,095,259.81	654,480.05
decrease in prepaid expenses (less: increase)	13,566,587.22	—
increase in accrued expenses (less: decrease)	(1,403,427.07)	8,308.34
losses on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	1,520,550.06	16,835.16
losses on scrapping of fixed assets	843,815.33	—
finance costs	46,933,355.26	952,861.12
losses on investment (less: gain)	(7,105,537.51)	(260,345,607.14)
deferred tax credit (less: debit)	—	—
decrease in inventories (less: increase)	(180,443,359.85)	(9,973,596.57)
decrease in operating receivables (less: increase)	(451,796,992.43)	(21,408,161.82)
decrease in operating payables (less: increase)	234,089,658.69	17,783,529.69
Others (expected increase in liabilities)	—	—
Net cash flows from operating activities	38,880,433.67	(24,295,254.05)

2. Investing and financing activities that don't involve in cash receipts or payments

Conversion of debt into capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance leases	—	—

3. Net increase/(decrease) in cash and cash equivalents

Cash at the end of year	489,127,579.61	64,731,299.07
Less: cash at the beginning of year	616,982,949.00	90,102,690.07
Add: cash equivalents at the end of year	—	—
Less: cash equivalents at the beginning of year	—	—
Net increase/(decrease) in cash and cash equivalents	(127,855,369.39)	(25,371,391.00)

9.3 Financial reports prepared in accordance with HKFRS

Consolidated income statement

		Year ended 31 December	
		2006	2005
	Note	(RMB'000)	(RMB'000)
Sales	2	10,241,004	9,026,340
Cost of goods sold	4	(8,472,228)	(7,472,974)
Gross profit		1,768,776	1,553,366
Other income – net	3	75,196	91,594
Selling and marketing costs	4	(778,181)	(616,821)
Administrative expenses	4	(656,513)	(641,365)
Other operating losses – net		(14,484)	(16,459)
Operating profit		394,794	370,315
Finance costs – net	5	(45,360)	(53,610)
Share of losses of associates		(279)	(1,212)
Profit before income tax		349,155	315,493
Income tax expense	6	(118,567)	(107,771)
Profit for the year		230,588	207,722

Attributable to:		
Equity holders of the Company	218,067	197,804
Minority interest	12,521	9,918
	<u>230,588</u>	<u>207,722</u>

**Earnings per share for profit
attributable to equity holders
of the Company during
the year**
(expressed in RMB per share)

– basic and diluted	7	<u>0.269</u>	<u>0.244</u>
Dividend	8	<u>68,116</u>	<u>56,763</u>

Consolidated balance sheet

As at 31 December
2006 **2005**
(RMB'000) *(RMB'000)*

ASSETS

Non-current assets

Property, plant and equipment	1,478,262	1,542,068
Investment properties	35,413	8,712
Land use rights	127,800	134,691
Intangible assets	40,629	49,506
Investments in associates	44,085	4,854
Available-for-sale financial assets	30,225	61,994
Deferred income tax assets	64,952	53,345
	<u>1,821,366</u>	<u>1,855,170</u>

Current assets			
Inventories		1,326,444	1,148,569
Trade and other receivables	9	2,004,026	1,683,197
Financial assets at fair value through profit or loss		—	10,903
Bank and cash balances		489,128	618,581
		<u>3,819,598</u>	<u>3,461,250</u>
Total assets		<u>5,640,964</u>	<u>5,316,420</u>
EQUITY			
Capital and reserves			
attributable to equity			
holders of the Company			
Share capital		1,592,034	1,592,034
Other reserves		1,085,486	989,014
Retained earnings			
– Proposed final dividend		68,116	56,763
– Others		151,753	85,312
		<u>2,897,389</u>	<u>2,723,123</u>
Minority interest		182,991	201,707
		<u>3,080,380</u>	<u>2,924,830</u>
Total equity		<u>3,080,380</u>	<u>2,924,830</u>

LIABILITIES**Non-current liabilities**

Deferred income tax liabilities		41,870	42,522
Employee benefits		50,138	46,203

		<u>92,008</u>	<u>88,725</u>
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Current liabilities

Trade and other payables	10	1,537,900	1,359,720
Current income tax liabilities		42,477	25,360
Borrowings		888,199	917,785

		<u>2,468,576</u>	<u>2,302,865</u>
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Total liabilities		<u>2,560,584</u>	<u>2,391,590</u>
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Total equity and liabilities		<u>5,640,964</u>	<u>5,316,420</u>
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Net current assets		<u>1,351,02</u>	<u>1,158,385</u>
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Total assets less current liabilities		<u>3,172,388</u>	<u>3,013,555</u>
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1 Basis of preparation

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

(a) Standards, interpretations and amendments to published standards effective in 2006 but not relevant to the Group's operations.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006. They are not relevant to the Group's operations.

HKAS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-int 3	Emission Rights
HKFRS-int 4	Determining whether an Arrangement Contains a Lease

HKFRS-int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

(b) Amendments to published standards effective in 2006 and are relevant to the Group's operations.

The following amendments are mandatory for accounting periods beginning on or after 1 January 2006. They are relevant to the Group's operations but the impact is not significant.

HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
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(c) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group

HKFRS 7	Financial Instruments: Disclosure ¹
HK (IFRIC)-Int 7	Applying the Restatement Approach under HKFRS 29 ²
HK (IFRIC)-Int 8	Scope of HKFRS 2 ³
HK (IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴
HK (IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁵

¹: Effective for accounting periods commencing on or after 1 January 2007

²: Effective for accounting periods commencing on or after 1 March 2006

³: Effective for accounting periods commencing on or after 1 May 2006

⁴: Effective for accounting periods commencing on or after 1 June 2006

⁵: Effective for accounting periods commencing on or after 1 November 2006

2. Segment information

Primary reporting format – business segments

At 31 December 2006, the Group is organised into the following business segments:

- Manufacturing of CPM;
- Wholesale of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus;
- Retail of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus; and
- Import and export of western pharmaceutical products, CPM and medical apparatus.

Turnover consists of sales of goods from the above business segments, which are RMB10,241,004,000 and RMB9,026,340,000 for the years ended 31 December 2006 and 2005 respectively.

Other operations of the Group mainly comprise holding of investment properties and other investments, neither of which are of a sufficient size to be separately reported.

The segment results are as follows:

	Year ended 31 December 2006					Group RMB'000
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export RMB'000	Elimination RMB'000	
Total gross segment sales	2,452,074	8,449,687	336,468	279,795	(1,277,020)	10,241,004
Inter-segment sales	(39,890)	(1,182,314)	(596)	(54,220)	1,277,020	—
Sales	<u>2,412,184</u>	<u>7,267,373</u>	<u>335,872</u>	<u>225,575</u>	<u>—</u>	<u>10,241,004</u>
Segment results	296,403	138,037	9,427	6,319	(42,640)	407,546
Unallocated cost						<u>(12,752)</u>
Operating profit						394,794
Finance costs						(45,360)
Share of losses of associates	(279)					<u>(279)</u>
Profit before income tax						349,155
Income tax expense						<u>(118,567)</u>
Profit for the year						<u><u>230,588</u></u>

Year ended 31 December 2005

	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total gross segment sales	<u>2,187,677</u>	<u>7,088,324</u>	<u>318,669</u>	<u>265,572</u>	<u>(833,902)</u>	<u>9,026,340</u>
Inter-segment sales	<u>(46,002)</u>	<u>(743,036)</u>	<u>—</u>	<u>(44,864)</u>	<u>833,902</u>	<u>—</u>
Sales	<u>2,141,675</u>	<u>6,345,288</u>	<u>318,669</u>	<u>220,708</u>	<u>—</u>	<u>9,026,340</u>
Segment results	255,701	132,974	3,179	5,206	(27,477)	369,583
Unallocated profit						<u>732</u>
Operating profit						370,315
Finance costs						(53,610)
Share of losses of associates	(1,212)					<u>(1,212)</u>
Profit before income tax						315,493
Income tax expense						<u>(107,771)</u>
Profit for the year						<u><u>207,722</u></u>

Other segment items included in the income statement are as follows:

	Year ended 31 December 2006					Group (RMB'000)
	Manufacturing (RMB'000)	Wholesale (RMB'000)	Retail (RMB'000)	Import and export (RMB'000)	Unallocated (RMB'000)	
Depreciation	98,573	21,468	2,626	157	3,809	126,633
Amortisation	13,293	5,502	—	—	—	18,795
Impairment of inventories	3,942	—	—	—	—	3,942
Reversal of inventories impairment	—	(643)	(672)	—	—	(1,315)
Impairment of trade and other receivables	3,240	8,893	(45)	796	—	12,884
Reversal of trade and other receivables impairment	(2,083)	—	—	—	—	(2,083)
Impairment of property, plant, and equipment	108	101	—	—	—	209

Year ended 31 December 2005

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Depreciation	99,272	19,152	2,113	173	4,679	125,389
Amortisation	12,780	4,387	—	—	—	17,167
Impairment of goodwill	507	1,497	—	—	—	2,004
Impairment of inventories	580	929	—	—	—	1,509
Reversal of inventories impairment	—	(4,303)	—	—	—	(4,303)
Impairment of trade and other receivables	2,465	4,456	—	611	—	7,532
Reversal of trade and other receivables impairment	(1,692)	(100)	—	—	—	(1,792)
Reversal of property, plant and equipment impairment	(341)	—	—	—	(7,110)	(7,451)

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Assets	2,609,835	2,781,627	182,883	111,858	605,250	(694,574)	5,596,879
Associates	44,085	—	—	—	—	—	44,085
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>2,653,920</u>	<u>2,781,627</u>	<u>182,883</u>	<u>111,858</u>	<u>605,250</u>	<u>(694,574)</u>	<u>5,640,964</u>
Liabilities	<u>642,373</u>	<u>2,346,688</u>	<u>87,416</u>	<u>86,370</u>	<u>92,311</u>	<u>(694,574)</u>	<u>2,560,584</u>
Capital expenditure	<u>86,397</u>	<u>10,222</u>	<u>1,074</u>	<u>491</u>	<u>3,710</u>	<u>—</u>	<u>101,894</u>

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Assets	2,499,796	2,436,726	194,843	122,651	684,748	(627,198)	5,311,566
Associates	4,854	—	—	—	—	—	4,854
	<u>2,504,650</u>	<u>2,436,726</u>	<u>194,843</u>	<u>122,651</u>	<u>684,748</u>	<u>(627,198)</u>	<u>5,316,420</u>
Total assets							
Liabilities	<u>643,665</u>	<u>2,086,885</u>	<u>90,904</u>	<u>100,043</u>	<u>97,291</u>	<u>(627,198)</u>	<u>2,391,590</u>
Capital expenditure	<u>112,071</u>	<u>19,116</u>	<u>5,178</u>	<u>60</u>	<u>843</u>	<u>—</u>	<u>137,268</u>

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

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

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

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

Secondary reporting format – geographical segments

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

3. Other income – net

	2006 (RMB'000)	2005 (RMB'000)
Gain on dilution of interest in a subsidiary	—	19,819
Interest income*	—	10,522
Gross rental income from investment properties	25,711	22,796
Gross rental income from other properties	11,032	16,758
Royalty income	2,866	2,579
Dividend income from available-for-sale financial assets	4,567	3,405
Income arising from disposals of financial assets at fair value through profit and loss	6,038	—
Others	24,982	15,715
	<u>75,196</u>	<u>91,594</u>

* Interest income earned for the year ended 31 December 2006 has been included in finance costs – net.

4. Expenses by nature

Cost of goods sold, selling and marketing costs and administrative expenses are analysed as below:

	2006 (RMB'000)	2005 (RMB'000)
Depreciation and amortisation	145,428	142,556
Impairment charge of available-for-sale financial assets	1,769	2,093
Impairment charge of goodwill	—	2,004
Impairment charge of property, plant, and equipment	209	—
Decline in value of financial assets at fair value through profit or loss	1,951	7,659
Impairment charge of receivables, net of reversal	10,801	5,740
Net impairment charge/ (reversal of impairment charge) of inventories	2,627	(2,794)
Outgoings in respect of investment properties	3,809	3,713
Loss on disposal of property, plant, and equipment	2,516	4,072
Research and development expenses	36,926	37,984
Transportation	59,397	63,034
Advertising costs	206,110	196,136
Changes in finished goods and work in progress	(23,235)	(26,932)

Raw materials and consumables used	1,248,465	999,310
Changes in merchandise	(109,095)	(45,863)
Merchandise purchased	7,221,571	6,404,489
Auditors' remuneration	3,488	3,300
Operating leases for buildings	33,034	33,377
Employee benefit expenses	680,823	631,690
Other expenses	380,328	269,592
	<hr/>	<hr/>
Total cost of goods sold, selling and marketing costs and administrative expenses	<u>9,906,922</u>	<u>8,731,160</u>

5. Finance costs – net

	2006	2005
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Interest expense on borrowings	46,510	51,338
Other incidental borrowing costs	8,603	2,272
	<hr/>	<hr/>
Finance costs	55,113	53,610
Finance income – Interest income *	(9,753)	—
	<hr/>	<hr/>
Finance costs – net	<u>45,360</u>	<u>53,610</u>

* Interest income earned for the year ended 31 December 2005 had been included in other income - net.

6. Income tax expense

The PRC enterprise income tax has been provided at the principal rate of 33% (2005: 33%), on the estimated assessable profit for the year, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises and a subsidiary which is qualified as “Advanced Technology Enterprise”. Given the subsidiary and the jointly controlled entity which are foreign investment production enterprise were established in a coastal economic development zone, the applicable enterprise income tax rate is 24%. The jointly controlled entity is entitled to an exemption from the PRC enterprise income tax for two years commencing from the first profit-making year and a 50% reduction in the enterprise income tax rate in the following three years. The applicable enterprise income tax rate for the subsidiary qualified as “Advanced Technology Enterprise” is 15%.

	2006 <i>(RMB'000)</i>	2005 <i>(RMB'000)</i>
Current income tax		
– PRC enterprise income tax	130,826	112,613
Deferred income tax	(12,259)	(4,842)
	<u>118,567</u>	<u>107,771</u>

7. Earnings per share

The calculation of earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company of RMB218,067,000 (2005: RMB197,804,000) and the 810,900,000 (2005: 810,900,000) shares in issue.

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the years ended 31 December 2006 and 2005.

8. Dividend

	2006 (RMB'000)	2005 (RMB'000)
Final, proposed, of RMB0.084 (2005: RMB0.070) per share	<u>68,116</u>	<u>56,763</u>

At a meeting held on 27 April 2007, the directors declared a final dividend of RMB0.084 per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

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

9. Trade and other receivables

	2006 (RMB'000)	2005 (RMB'000)
Trade receivables (a)	1,401,804	1,004,658
Less: provision for impairment of receivables	<u>(45,362)</u>	<u>(44,881)</u>
Trade receivables – net	1,356,442	959,777
Bills receivable	380,010	331,754
Other receivables and prepayments	263,503	386,606
Due from ultimate holding company	<u>4,071</u>	<u>5,060</u>
	<u><u>2,004,026</u></u>	<u><u>1,683,197</u></u>

Note:

- (a) Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of trade receivables is as follows:

	2006 (RMB'000)	2005 (RMB'000)
Within 6 months	1,306,538	922,280
6 months to 1 year	51,497	24,949
Over 1 year	<u>43,769</u>	<u>57,429</u>
	<u><u>1,401,804</u></u>	<u><u>1,004,658</u></u>

10. Trade and other payables

	2006 (RMB'000)	2005 (RMB'000)
Trade payables (a)	1,067,798	955,704
Due to ultimate holding company	16,994	25,468
Other payables and accrued charges	453,108	378,548
	<u>1,537,900</u>	<u>1,359,720</u>

- (a) The ageing analysis of trade payables as at 31 December 2006 is as follows:

	2006 (RMB'000)	2005 (RMB'000)
Within 1 year	1,019,514	908,119
1 year to 2 years	25,241	25,264
Over 2 years	23,043	22,321
	<u>1,067,798</u>	<u>955,704</u>

By order of the Board
Yang Rongming
Chairman

Guangzhou, the PRC, 27 April 2007

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Shi Shaobin, Mr. Chen Zhinong and Mr. Feng Zansheng as Executive Directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as Independent Non-executive Directors.

Please also refer to the published version of this announcement in The Standard / Hong Kong Economic Times.