



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 2007 Annual Report

1. IMPORTANT NOTICE

- 1.1 The board of Directors (the “Board”), the Supervisory Committee (the “Supervisory Committee”) of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and its Directors, Supervisors and Senior Management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this summary and confirm that there are no false information, misleading statements or material omissions in this summary.
- 1.2 This summary is extracted from the full text of the 2007 annual report of the Company, which will both be published at the website (<http://www.sse.com.cn>) of the Shanghai Stock Exchange (“SSE”), and at the website (<http://www.hkex.com.hk>) of the Stock Exchange of Hong Kong Limited (“HKEx”). Investors who wish to know more details are advised to refer to the full text of the 2007 annual report carefully.
- 1.3 All Directors of the Board were present at the fifth meeting of the Fourth Session of the Board of the Company, among whom Mr Wong Hin Wing, an Independent Non-executive Director, attended the meeting by means of telephone communication.
- 1.4 Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. (formerly known as “Guangdong Yangcheng Certified Public Accountants Co., Ltd.”), the domestic auditor, and PricewaterhouseCoopers Certified Public Accountants, the international auditor, have audited the financial reports of the Company together with its subsidiaries (collectively the “Group”) and the Company for the year ended 31 December 2007 (the “Reporting Period” or the “Year”) and issued unqualified auditors’ reports thereon.
- 1.5 Mr. Yang Rongming, the Chairman, Mr Shi Shaobin, Director and General Manager, Mr. Chen Binghua, Financial Controller and Senior Manager of the Finance Department, warrant and confirm the authenticity and completeness of the financial reports contained in this summary.

- 1.6 Unless otherwise specified, the financial data quoted in this summary is prepared in accordance with PRC Accounting Standards.
- 1.7 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial report prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), the Chinese version shall prevail.
- 1.8 All the information required by paragraphs 45, 45A of Appendix 16 to the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) will be published on the website of HKEx in due course.

2. COMPANY PROFILE

2.1 General information

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

2.2 Contacts

	Company secretary	Representative of securities affairs
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3. FINANCIAL DATA AND INDICATORS

3.1 Principal financial data

	2007 <i>(RMB'000)</i>	2006 <i>(RMB'000)</i> <i>(Restated)</i>	Changes as compared with 2006 <i>(%)</i>	2005 <i>(RMB'000)</i> <i>(Restated)</i>
Income from operations	12,320,777	10,296,317	19.66	9,029,237
Total profit	472,263	381,182	23.89	313,245
Net profit attributable to the shareholders of the Company	335,147	237,511	41.11	185,024
Net profit attributable to the shareholders of the Company after deducting extraordinary gain or loss	294,016	238,049	23.51	186,104
Net cash inflows from operating activities	375,742	37,953	890.01	146,323
	As at 31 December 2007 <i>(RMB'000)</i>	As at 31 December 2006 <i>(RMB'000)</i> <i>(Restated)</i>	Changes as compared with 31 December 2006 <i>(%)</i>	As at 31 December 2005 <i>(RMB'000)</i> <i>(Restated)</i>
Total assets	6,206,944	5,463,683	13.60	5,161,858
Equity holders' funds (or shareholders' funds) attributable to the shareholders of the Company	3,060,348	2,790,398	9.67	2,612,958

3.2 Principal financial indicators

	2007	2006 <i>(Restated)</i>	Changes as compared with 2006 <i>(%)</i>	2005 <i>(Restated)</i>
Basic earnings per share <i>(RMB)</i>	0.413	0.293	41.11	0.228
Diluted earnings per share <i>(RMB)</i>	0.413	0.293	41.11	0.228
Basic earnings per share after deducting non-operating items <i>(RMB)</i>	0.363	0.294	23.51	0.230
Fully diluted return on net assets <i>(%)</i>	10.95	8.51	With an increase of 2.44 percentage points	7.08
Weighted average return on net assets <i>(%)</i>	11.46	8.79	With an increase of 2.67 percentage points	7.39
Fully diluted return on net assets after deducting non-operating items <i>(%)</i>	9.61	8.53	With an increase of 1.08 percentage points	7.12
Weighted average return on net assets after deducting non-operating items <i>(%)</i>	10.06	8.81	With an increase of 1.25 percentage points	7.44
Net cash flow from operating activities per share <i>(RMB)</i>	0.46	0.05	890.01	0.18

	As at 31 December 2007	As at 31 December 2006 <i>(Restated)</i>	Changes as compared with 31 December 2006 <i>(%)</i>	As at 31 December 2005 <i>(Restated)</i>
Net assets per share attributable to the shareholders of the Company <i>(RMB)</i>	3.77	3.44	9.67	3.22

Non-operating items

Applicable Not applicable

Items	Amount <i>(RMB'000)</i>
Gain/ (Loss) on disposal of non-current assets	1,238
Government subsidies recognized as gain/(loss)	9,409
Income/(Loss) of entrusted loans	(1,153)
Gain/(Loss) arising from capital increase	28,833
Other non-operating income and expenses excluding the above items	3,752
Other non-operating items confirmed by CSRC	3,877
Income tax effect	(3,895)
Minority interests	(930)
Total	<u>41,131</u>

Items measured at fair value

Applicable Not applicable

Items	The balance at the beginning of the Reporting Period <i>(RMB'000)</i>	The balance at the end of the Reporting Period <i>(RMB'000)</i>	Changes during the Reporting Period <i>(RMB'000)</i>	Amount of impact on the profit for the Reporting Period <i>(RMB'000)</i>
Trading financial assets	—	5,511	5,511	—
Disposable assets	1,065	9,217	8,152	—
Total	<u>1,065</u>	<u>14,728</u>	<u>13,663</u>	—

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

Applicable Not applicable

	As at 31 December 2007 <i>(RMB'000)</i>	As at 31 December 2006 <i>(RMB'000)</i>
Net Asset under PRC Accounting Standards	3,060,348	2,790,398
Intangible assets capitalised	16,669	27,006
Difference arising from fixed assets revaluation	123,728	126,547
Deferred government grants generated prior to the adoption of the new PRC Accounting Standards	(2,833)	(3,279)
Provision for deferred tax liabilities arising from fixed assets revaluation	(35,536)	(41,870)
Revaluation of investment properties	19,634	13,105
Difference in minority interest	(13,989)	(14,518)
Capital and reserves attributable to equity holders of the Company under HKFRS	<u>3,168,021</u>	<u>2,897,389</u>

	As at 31 December 2007 (RMB'000)	As at 31 December 2006 (RMB'000)
Net profit under PRC Accounting Standards	335,147	237,511
Amortisation of intangible assests	(10,337)	(10,361)
Additional depreciation on revalued fixed assets	(2,819)	(1,975)
Government grants recognized as deferred income prior to the adoption of the new PRC Accounting Standards	446	1,106
Decline in fair value of investment properties	—	(12)
Difference arising from depreciation of investment properties in cost model and fair value model	1,979	—
Appropriation of staff bonus and welfare fund charged as expenses	(3,779)	(7,680)
Difference in minority interest	(294)	(522)
	<hr/>	<hr/>
Profit attributable to equity holders of the Company under HKFRS	<u>320,343</u>	<u>218,067</u>

3.4 Accounts prepared in accordance with HKFRS

Items	2007	2006	2005	2004	2003
Turnover (RMB'000)	12,260,744	10,241,004	9,026,340	7,709,565	6,973,113
Profit before income tax (RMB'000)	456,806	349,155	315,493	161,675	307,829
Profit attributable to equity holders of the Company (RMB'000)	320,343	218,067	197,804	42,829	146,667
Earnings per share (RMB)	0.40	0.27	0.24	0.05	0.18
	As at	As at	As at	As at	As at
	31 December	31 December	31 December	31 December	31 December
Items	2007	2006	2005	2004	2003
Total assets (RMB'000)	6,367,843	5,640,964	5,316,420	5,413,438	4,954,091
Total liabilities (RMB'000)	2,950,451	2,560,584	2,391,590	2,655,559	2,220,047
Capital and reserves attributable to equity holders of the Company (RMB'000)	3,168,021	2,897,389	2,737,123	2,545,592	2,551,417
Capital and reserves per share attributable to equity holders of the Company (RMB)	3.91	3.57	3.36	3.14	3.15
Return on capital and reserves attributable to equity holders of the Company (%)	10.11	7.53	7.26	1.68	5.75
Ratio of capital and reserves attributable to equity holders of the Company to total assets (%)	49.75	51.36	51.22	47.02	51.50
Gearing ratio (%) (note)	46.33	45.39	44.98	49.05	44.81

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

4. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Changes in share capital

4.1.1 Movement in share capital and its components

	Before change		Change					After change	
	Number of shares (share)	Percentage (%)	New issues (share)	Bonus issues (share)	Reserves capitalized (share)	Others (listing and trading of tradable shares without selling restrictions)	Sub-total (share)	Number of shares (share)	Percentage (%)
						(share)			
I. Shares with selling restrictions	489,600,000	60.38	—	—	—	(61,541,491)	(61,541,491)	428,058,509	52.79
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. Shares held by State-owned legal entities	—	—	—	—	—	—	—	—	—
3. Other domestic shares									
Including: Shares held by domestic legal entities	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Shares held by foreign capital									
Including: Shares held by overseas legal entities	—	—	—	—	—	—	—	—	—
Shares held by overseas natural persons	—	—	—	—	—	—	—	—	—
Total shares with selling restrictions	489,600,000	60.38	—	—	—	(61,541,491)	(61,541,491)	428,058,509	52.79
II. Shares without selling restrictions									
1. Renminbi-denominated ordinary shares	101,400,000	12.50	—	—	—	61,541,491	61,541,491	162,941,491	20.09
2. Domestically listed foreign capital shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign capital shares	219,900,000	27.12	—	—	—	—	—	219,900,000	27.12
4. Others	—	—	—	—	—	—	—	—	—
Total shares without selling restrictions	321,300,000	39.62	—	—	—	61,541,491	61,541,491	382,841,491	47.21
III. Total shares	810,900,000	100.00	—	—	—	—	—	810,900,000	100.00

4.1.2 Changes of shares with selling restrictions

Shareholders	Number of shares with selling restrictions at the beginning of the Year (share)	Number of shares released from restrictions in the Year (share)	Number of new shares with selling restrictions in the Year (share)	Number of shares with selling restrictions at the end of the Year (share)	Reasons of selling restrictions	Date of release from restrictions
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	468,603,509	40,545,000	0	362,948,509	Share reform undertaking	24 April 2007
China Great Wall Corporation (“Great Wall Corporation”)	20,996,491	20,996,491	0	0	Share reform undertaking	24 April 2007
Total	489,600,000	61,541,491	0	362,948,509	—	—

4.2 The Company’s top ten shareholders and the top ten shareholders holding shares without selling restrictions and their shareholdings

Total number of shareholders as at the end of the Reporting Period 46,110

Shareholdings of the Company's top ten shareholders as at the end of the Reporting Period

Shareholders (full name)	Nature of shares	Number of shares held (share)	% of total issued share capital (%)	Number of shares with selling restrictions (share)	Number of pledged or frozen shares (share)
GPHL	Domestic shares	387,368,654	Approximately 47.77	362,948,509	20,850,000 (Note 1)
HKSCC Nominees Limited	H Shares	219,512,299	Approximately 27.07	Nil	Unknown
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	46,670,000	Approximately 5.76	46,670,000	0
Guangzhou Huangshi Rural Credit Cooperative	Domestic shares	9,020,000	Approximately 1.11	9,020,000	Unknown
China Merchants Bank Co., Ltd. — China Everbright Pramerica Super Stock-oriented Investment Fund	Domestic shares	7,887,353	Approximately 0.97	Nil	Unknown
Bank of China — Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	Domestic shares	4,599,930	Approximately 0.57	Nil	Unknown
Guangzhou Xinjiao Rural Credit Cooperative	Domestic shares	4,220,000	Approximately 0.52	4,220,000	Unknown
Guangzhou Xinfeng Rural Credit Cooperative	Domestic shares	3,480,000	Approximately 0.43	3,480,000	Unknown
Agricultural Bank of China — Soochow Value Growth Dynamic Equity Investment Fund	Domestic shares	1,858,067	Approximately 0.23	Nil	Unknown
ICBC — Hua An Mid & Small Cap Equity Investment Fund	Domestic shares	1,737,350	Approximately 0.21	Nil	Unknown

**The Company's top ten shareholders holding shares without selling restrictions
Shareholdings of as at the end of the Reporting Period**

Shareholder	Number of shares without selling restrictions held (share)	Nature of shares
HKSCC Nominees Limited	219,512,299	H shares
GPHL	24,420,145	Domestic shares
China Merchants Bank Co., Ltd. — China Everbright Pramerica Super Stock-oriented Investment Fund	7,887,353	Domestic shares
Bank of China — Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	4,599,930	Domestic shares
Agricultural Bank of China — Soochow Value Growth Dynamic Equity Investment Fund	1,858,067	Domestic shares
ICBC — Hua An Mid & Small Cap Equity Investment Fund	1,737,350	Domestic shares
Bank of Communications — HSBC Jintrust Dynamic Strategy Hybrid Securities Investment Funds	1,455,700	Domestic shares
Bank of Communications — Hua An Strategic Selective Equity Investment Fund	1,314,953	Domestic shares
Meng Xiangtong	1,122,900	Domestic shares
National Social Security Fund 109 Group	1,034,508	Domestic shares

- Explanation
1. The 12,480,000 shares held by GPHL were intended to be transferred to Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“Baiyunshan Co., Ltd.”). Currently, the procedures for approval of the equity transfer are not completed yet. Among the 102,960,000 shares pledged, 65,110,000 shares were transferred to institutions including Guangzhou Beicheng Rural Credit Cooperative by order of court ruling in the first half of 2007, 17,000,000 shares were released from pledge on 12 November 2007 and 22 November 2007 respectively. The remaining 20,850,000 shares were also released from pledge on 9 January 2008.

During the Reporting Period, GPHL sold 16,124,855 shares of the Company it held through the secondary market, representing 1.99% of the total issued share capital of the Company.

2. According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
3. Among the top ten shareholders of the Company, GPHL was not connected with the other nine shareholders and were not persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”. The Company was not aware of any connection among the other nine shareholders, or whether they were persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.
4. The Company was not aware of any connection among the above-mentioned ten shareholders holding the shares without to selling restrictions, or whether they were persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

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

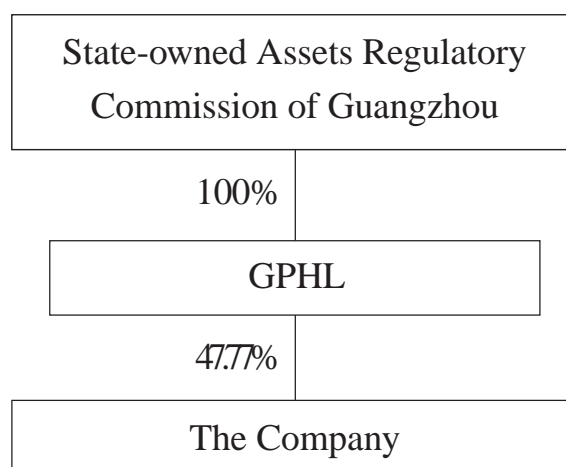
4.3.1 Information of the changes in the controlling shareholder and its beneficial owner of the Company

Applicable Not applicable

4.3.2 Information of the controlling shareholder and its beneficial owner of the Company

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
% of shares held	47.77%
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 Relationship between the Company and its beneficial owner as at the end of the Reporting Period



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

4.5 Public float

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

4.6 Pre-emptive rights

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

5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Change of present directors', supervisors' and senior management's interests in shares of the Company and their emoluments

Name	Position	Gender	Age	Shares		Reason for change	Total emoluments received from the Group during the Reporting Period		Share options granted in the reporting period		Whether emoluments were received from the Company's shareholder or connected parties	
				held as at the beginning of the Year (share)	held as at the end of the Year (share)		(RMB'0000)	Number of exercisable shares (share)	Number of exercised shares (share)	Exercise price		Reporting Period
Yang Rongming	Chairman	Male	54	0	0	—	—	Nil	Nil	Nil	Nil	Yes
Shi Shaobin	Executive Director, General Manager	Male	40	0	0	—	527	Nil	Nil	Nil	Nil	No
Feng Zansheng	Executive Director	Male	57	0	0	—	645	Nil	Nil	Nil	Nil	No
Wong Hin Wing	Independent Non-executive Director	Male	45	0	0	—	80	Nil	Nil	Nil	Nil	No
Liu Jinxiang	Independent Non-executive Director	Male	66	0	0	—	43	Nil	Nil	Nil	Nil	No
Li Shanmin	Independent Non-executive Director	Male	45	0	0	—	43	Nil	Nil	Nil	Nil	No
Zhang Yonghua	Independent Non-executive Director	Male	49	0	0	—	43	Nil	Nil	Nil	Nil	No
Yang Xiuwei	Chairman of Supervisory Committee	Female	45	0	0	—	—	Nil	Nil	Nil	Nil	Yes
Wu Quan	Supervisor	Male	51	0	0	—	86	Nil	Nil	Nil	Nil	No
Zhong Yugan	Supervisor	Male	51	0	0	—	30	Nil	Nil	Nil	Nil	No
He Shuhua	Deputy General Manager, Company Secretary	Male	51	36,010	36,010	—	337	Nil	Nil	Nil	Nil	No
Su Guangfeng	Deputy General Manager	Male	44	0	0	—	433	Nil	Nil	Nil	Nil	No
Chen Binhua	Financial Controller	Male	42	6,240	6,240	—	280	Nil	Nil	Nil	Nil	No
Total	/	/	/	42,250	42,250	/	2,547	/	/	/	/	/

Each of the above directors and senior management has a term of office commencing from 15 June 2007 to the date when members of the new session of the Board are elected, while each of the above supervisors has a term of office commencing from the 15 June 2007 to the date when members of the new session of the Supervisory Committee are elected.

6. REPORT OF THE DIRECTORS

6.1 Management discussion and analysis

6.1.1 Business scope and analysis of operations

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine (“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.

6.1.2 Analysis of operating results

(1) Operation review

In 2007, the Group maintained a continuous healthy development in its principal operations by means of various efforts including strengthening the fundamental management, actively exploring the market, accelerating scientific R&D and fine-tuning integration of resources.

According to PRC Accounting Standards, the Group recorded an income from principal operations of RMB12,260,744,000 for the Reporting Period, up 19.70% as compared with the previous year. The profit before tax amounted to RMB472,263,000, representing an increase of 23.89% over the previous year and net profit amounted to RMB335,147,000, representing an increase of 41.11% over the previous year.

According to HKFRS, the Group recorded turnover of RMB12,260,744,000 for the Reporting Period, up 19.72% as compared with the previous year. Profit before income tax amounted to RMB456,806,000, representing an increase of 30.83% over the previous year and profit attributable to equity holders of the Company amounted to RMB320,343,000, representing an increase of 46.90% over the previous year.

A breakdown of the operational results of the overall and principal operations of the Group for 2007 is set out as follows:

Prepared in accordance with PRC Accounting Standards

Items	2007	2006	Growth
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>/(Decrease)</i>
		<i>(Restated)</i>	<i>(YoY) (%)</i>
Income from principal operations	12,260,744	10,242,560	19.70
Include: Manufacturing	2,832,838	2,412,041	17.45
Trading	9,427,906	7,830,519	20.40
Operating profit	460,959	384,573	19.86
Include: Manufacturing	352,250	290,050	21.44
Trading	108,709	94,523	15.01
Total profit	472,263	381,182	23.89
Include: Manufacturing	358,370	288,087	24.40
Trading	113,893	93,095	22.34
Net profit	335,147	237,511	41.11
Include: Manufacturing	267,461	181,490	47.37
Trading	67,686	56,021	20.82

<i>Prepared in accordance with HKFRS</i>	2007	2006	Growth
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>/(Decrease)</i>
			<i>(YoY) (%)</i>
Turnover	12,260,744	10,241,004	19.72
Include: Manufacturing	2,832,838	2,412,184	17.44
Trading	9,427,906	7,828,820	20.43
Profit before income tax	456,806	349,155	30.83
Include: Manufacturing	342,256	260,772	31.25
Trading	114,550	88,383	29.61
Profit attributable to equity holders of the Company	320,343	218,067	46.90
Include: Manufacturing	262,352	174,538	50.31
Trading	57,991	43,529	33.22

During the Reporting Period, the Group took the following measures in its manufacturing operations: (i) developing and consolidating distributors and agents with market expansion capacity to extend distributing channels, and made timely adjustment in marketing strategies according to the market momentum so as to actively protect the market price of core products and ensure the steady rapid growth in the products' sales; (ii) reinforcing academic promotion and marketing of products, enlarging the proportion of sales in the hospital market and building up the "Reassuring Guangzhou Pharmaceutical" corporate image through organizing the "Pay Attention to Medical Drug Safety, Build a Harmonious Community" Expired Household Medical Drugs Recycling Day campaign so as to uplift the influence and goodwill of the corporate and product brands; and (iii) accelerating integration of resources and conformity of operating procedures in the Group by boosting the combination of its subsidiaries, namely Guangzhou Han Fang Contemporary Chinese Medicine Research & Development Co., Ltd. ("Guangzhou Han Fang") and Guangzhou Huan Ye Pharmaceutical Co., Ltd ("Guangzhou Huan Ye") and the "1+1" project of Guangzhou Xing Qun Pharmaceutical Co., Ltd ("Xing Qun") and Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd ("Pan Gao Shou") so as to leverage on one another's strengths and maximize the economic benefits through scale production.

In 2007, there were 41 products which generated sales exceeding RMB10 million. Sales of certain products including Wang Lao Ji Liang Cha, Xiao Ke Wan, An Shen Bu Nao Ye, Hua Tuo Zai Zao Wan, Xiao Er Qi Xing Cha, Ke Chuan Shun Wan, Hou Zao Niu Huang San and Xu Han Ting Ke Li, etc., significantly increased (each with an increase exceeding RMB15 million) by 77.23%, 18.65%, 63.25%, 10.61%, 29.41%, 97.38%, 73.58% and 50.53% respectively when compared with the previous year.

In 2007, scientific and technological investment by the Group was approximately RMB77.937 million with an 8.4% increase compared to 2006. During the Reporting Period, the “National Engineering Research Center of Guangzhou Han Fang Modern Chinese Medicine Modernization of Extraction and Separation Process” was successfully approved with high standard by departments such as the National Development and Reform Commission, and became the first national engineering research center focusing on extraction and separation of Chinese medicines. In November 2007, the Xiao Ke Wan of Guangzhou Zhong Yi Pharmaceutical Co., Ltd (“Zhong Yi”) obtained state patents including “Medical composition for diabetes curing and its preparation method” and “Method of controlling the quality and quantity of Xiao Ke Wan”. The proposal and CRO field inspection of its evidence-based medicine clinical research were completed and was listed as the branch project of the national 863 program. The “Therapeutic double-plasmid Anti-HBV DNA Vaccine” project of Guangzhou Bai Di Bio-technology Co., Ltd (“Guangzhou Bai Di”) has been on the process of applying for production approval.

During the Reporting Period, the three manufacturing subsidiaries of the Company including Zhong Yi, Xing Qun and Guangzhou Chen Li Ji Pharmaceutical Factory (“Chen Li Ji”) received “Certificate of High and New Technology Enterprise”. The qualification being High and New Technology enterprises of the above enterprises are also admitted by their respective local tax authorities.

During the Reporting Period, active adjustments were made for the trading operations under the fiercely competitive market environment. Firstly, resources were focused on developing the marketing work for key products so as to boost sales of the key products. Through close cooperation with factories, Guangzhou Pharmaceuticals Corporation (“Pharmaceuticals Corporation”) obtained distributorship for well-known brands including Jilin Wu Tai, Shaanxi Bu Chang and Shanghai RAAS. Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd (formerly known as “Guangzhou Medicine Corporation”, abbreviated as “Cai Zhi Lin Pharmaceutical”) also extended its efforts in distributions for a wider variety of brands and products, with an increase of 95% in brands and products beyond the province and co-invested products compared to the preceding year. Secondly, development of the marketing network was intensified and integration for various resources was steadily conducted so that an operating platform with better network coverage was initially formed and the sales network was widely explored. Thirdly, online bidding in hospitals was well carried out. Pharmaceuticals Corporation and Cai Zhi Lin Pharmaceutical strived to complete the tendering invitation and submission for “Sunshine online procurement” of medical system, which enhanced the overall percentage of online entry of subsidiaries of the Group. Fourth, management of receivables was reinforced in respect of strengthening aging analysis, check-up and collection of accounts receivable. Fifth, on-site purchases at raw materials production locations were actively implemented which effectively stabilized prices, ensured supply and controlled the costs.

As at 31 December 2007, the Group had 114 retail chain pharmacies, including 84 “Cai Zhi Lin” which specialized in traditional Chinese medicines, 27 “Jian Min” which specialized in chemical medicines, 1 pharmacy named Ying Bang and 2 other retail chain pharmacies.

6.1.3 Possible changes of accounting policies and accounting estimates of the Group after carrying out new accounting standards for enterprises and their effects to financial conditions and operating results of the Group

Applicable Not applicable

Since 1 January 2007, the Group has carried out New Accounting Standards for Enterprises. An analysis on the effects to accounting policies, accounting estimates and financial conditions and operating results of the Group is as follows:

1. Scope of consolidated financial statement: The parent company should include all subsidiaries controlled by it into the scope of consolidated financial statement no matter they are small in size or having extraordinary business nature. As the size of Guangzhou Jing Xiu Tang 1790 Marketing Co., Ltd (廣州敬修堂一七九零營銷有限公司), the Group's subsidiary which the Group has retrospectively increased the equity percentage in it to 51%, was limited, its impact towards the Group's minority shareholders' interest at the beginning of 2007 was only the decrease of RMB41,000.
2. The Group has performed independent audit towards investment properties according to Accounting Principles for the Enterprises No. 3 - Investment Properties and adopted cost model for continual calculation which did not involve retrospective adjustment items.
3. The Group's financial statement on first execution day involved accounting policies with retrospective adjustments including the changes in accounting policies such as Accounting Principles for the Enterprises No. 2 - Long-term Equity Investment, Accounting Principles for the Enterprises No. 13 - Contingent Event, Accounting Principles for the Enterprises No. 18 - Income Tax, Accounting Principles for the Enterprises No. 20 - Merger of Enterprises and etc.
 - (1) Taking the income statement in 2006 as an example, the impact of those changes in accounting policies towards operation results will be realized as increase of net profit of RMB10,182,000 attributable to the parent company, a growth of 4.48% in net profit compared with the original income statement. Among them, estimated liabilities of transitional medical insurance increase net profit by an increase of RMB10,019,000. Those changes in accounting policies will not have material impact towards the Group's operation results.

- (2) Due to the retrospective adjustment on the related transactions and events involved in changes in accounting policies, the Group's interest attributable to the parent company's shareholders was RMB2,310,000, representing approximately 0.08% of the original net asset as at 31 December 2006. Among them, deferred income tax asset has increased shareholder's interest by RMB61,332,000, decrease in estimated liabilities of transitional medical insurance has decreased shareholder's interest by RMB56,610,000, changes in scope of consolidation according to new standards have decreased shareholder's interest by RMB41,000, difference in borrowers of long-term equity investment has decreased shareholders' interest by RMB2,285,000, amortized value of goodwill has decreased shareholders' interest by RMB911,000 and disposable financial assets measured by fair value with changes attributable to current interest have increased shareholder's interest by RMB826,000. Those retrospective adjustments in accounting policies did not have any major impact towards the Group's interest attributable to shareholders of the parent company.
4. The accounting estimates of the Group included depreciable life of fixed assets, depreciable life of investment properties, amortizable life of intangible assets and land use rights and etc. The implementation of the New Accounting Standards will not result in changes in those accounting estimates.
5. According to the Explanation on Enterprise Accounting Standards No. 1, retrospective adjustments were made on the Group's long term equity investment in its subsidiaries as at 1 January 2007. The change in the above accounting policy had certain impact on the Company's financial conditions and operating results, but will not have any impact on the Group's financial conditions and operating results.

To conclude, the implementation of the New Accounting Standards will not have major impact towards the accounting policies, the accounting estimates, the financial conditions and operating results of the Group.

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

Principal activities or major products	Revenue from principal operations (RMB'000)	Cost of principal operations (RMB'000)	Gross profit margin of operations (%)	Change	Change in	Change in profit from operations as compared with last year
				in revenue from operations as compared with 2006 (%)	costs from operations as compared with 2006 (%)	
Principal operations:						
Manufacturing	2,832,838	1,381,315	50.25	17.45	17.03	With an increase of 0.17 percentage point
Trading	9,427,906	8,863,976	5.89	20.40	21.09	With a decrease of 0.53 percentage point
Include: connected transactions	205,585	194,038	5.31	(13.25)	(13.67)	With an increase of 0.47 percentage point
Products						
Heat clearing and antitoxic medicine	780,618	409,496	46.55	25.18	27.33	With a decrease of 0.89 percentage point
Include: Gherbal tea series (<i>note</i>)	320,785	189,634	39.89	81.91	87.97	With a decrease of 1.91 percentage points
Diabetic medicine	526,811	179,119	65.01	18.65	27.87	With a decrease of 2.45 percentage points
Cough and phlegm clearing medicine	333,838	157,022	51.97	10.24	19.89	With a decrease of 3.79 percentage points
Arthritic medicine	303,364	132,715	55.26	6.80	13.85	With a decrease of 2.72 percentage points
Gastric medicine	108,276	53,609	49.50	35.77	26.34	With an increase of 3.69 percentage points
Other products	779,932	449,355	41.39	15.07	4.84	With a decrease of 5.62 percentage points
Include: connected transactions	4,425	3,570	18.34	(48.07)	(61.39)	With an increase of 27.84 percentage points

The pricing principle of
the 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
the connected transactions

The Company's subsidiary, Guangzhou Pharmaceutical Import & Export Corporation ("Pharmaceutical Import & Export Corporation"), is mainly engaged in the import and export 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.

Note: Herbal tea series include Wang Lao Ji Liang Cha, Pangaoshou Liang Cha and Xing Qun Xia Sang Ju Yin Liao, among them the turnover of Wang Lao Ji's products was calculated according to the equity percentage of 48.0465% held by the Company in Wang Lao Ji.

The total amount of sale of products from the Group to GPLH together with its subsidiaries and their respective associates was RMB205,585,000 during the Reporting Period.

6.3 Geographical analysis of principal business

Region	Revenue from principal operations (RMB'000)	Growth /(Decrease) as compared with 2006 (%)
Southern China	10,029,186	21.16
Eastern China	876,723	14.02
Northern China	343,086	1.63
North-Eastern China	231,493	6.35
South-Western China	467,249	18.84
North-Western China	187,442	31.97
Exports	125,565	18.82
Total	<u>12,260,744</u>	<u>19.70</u>

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

Name	Percentage of direct holding of shares by the Company (%)	Sales income (RMB'000)	Profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	347,479	33,514	27,922
Zhong Yi	100.00	750,011	145,440	121,463
Chen Li Ji	100.00	230,693	28,358	24,086
Guangzhou Qi Xing Pharmaceutical Co., Ltd	75.00	373,173	49,416	36,914
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd ("Jing Xiu Tang")	88.40	228,242	27,575	18,989
Pan Gao Shou	87.77	309,463	34,425	22,639
Guangzhou Huan Ye	100.00	39,468	(2,543)	(2,777)

Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	27,014	(787)	(787)
Guangzhou Bai Di	95.69	801	(17,519)	(17,519)
Guangzhou Han Fang Pharmaceuticals Corporation	70.04	15,486	(32,275)	(32,275)
77.64	8,530,659	111,081	70,769	
Cai Zhi Lin Pharmaceutical	100.00	1,327,072	4,935	4,618
Pharmaceutical Import & Export Corporation	100.00	291,562	2,871	1,566
(2) Branches				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	—	430,180	3,500	3,500
(3) Joint venture				
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	48.05	976,546	125,305	110,536

Note:

After the restructuring of Guangzhou Chinese Medicine Corporation, the company was renamed as "Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd." with effect from 4 December 2007.

The result of Wang Lao Ji was stated in full amount in the above table.

6.5 Use of proceeds from issue of A shares

Applicable Not applicable

The net proceeds from the issuance of A shares in the Company were approximately RMB737,990,000. As at 31 December 2007, an amount of RMB729,800,000 has been utilized, and the portion exceeding the budgeted proceeds was used as supplementary corporate working capital.

As at the end of the Reporting Period, the actual applications of the proceeds from the issuance of A shares in the Company were in line with the undertakings made in the prospectus for the issuance of A shares and all the projects have been completed.

During the Reporting Period, additional sales and gross profit from the issue of A Shares amounted to RMB5,836,860,000 and RMB739,420,000 respectively.

Change in projects

Applicable Not applicable

6.6 Proceeds not from issue of A shares

Applicable Not applicable

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

Applicable Not applicable

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

The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Standards and the amount determined in accordance with HKFRS. The Board recommended a final dividend of RMB0.124 per share (including withholding tax for A shares) for the year ended 31 December 2007 (2006: RMB0.084). The proposed final dividend will be submitted to the forthcoming 2007 annual general meeting for consideration and approval (the date and matters to be considered at the 2007 annual general meeting are to be announced otherwise).

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

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

Applicable Not applicable

6.9 Liquidity

As at 31 December 2007, the current ratio of the Group was 1.64 (31 December 2006: 1.60), and its quick ratio was 1.13 (31 December 2006: 1.04). Accounts receivable turnover rate was 9.58 times, representing a decrease of 7.36% as compared with that of 2006. Inventory turnover rate was 7.49 times, representing an increase of 8.65% as compared with last year.

6.10 Financial resources

As at 31 December 2007, cash and cash equivalents of the Group amounted to RMB719,434,000 (31 December 2006: 489,580,000), out of which 98.94% and 1.06% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2007, the Group had bank borrowings of RMB956,488,000 in total, all of which were short-term borrowings (31 December 2006: RMB888,199,000).

6.11 Capital structure

As at 31 December 2007, the Group's current liabilities amounted to RMB2,787,960,000 (31 December 2006: RMB2,385,581,000), representing an increase of 16.87% over that of 2006, and its long-term liabilities was RMB124,774,000 (31 December 2006: RMB121,259,000), with an increase of 2.90% as compared with 2006. The shareholders' funds amounted to RMB3,060,348,000 (31 December 2006: RMB2,790,398,000), with an increase of 9.67% as compared with 2006.

6.12 Capital expenditure

The Group expects the capital expenditure for 2008 to amount to approximately RMB335 million (2007: RMB115 million), which will be mainly applied in the construction of factories and infrastructure and acquisition of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

6.13 Gearing ratio

As at 31 December 2007, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 46.93% (31 December 2006: 45.88%), with an increase of 1.05 percentage points as compared with the year 2006.

6.14 Exposure to fluctuations in exchange rates

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

6.15 Main cash resources and its applications

As at 31 December 2007, cash and cash equivalents of the Group amounted to RMB719,434,000, with a increase of RMB229,854,000 as compared with last year. The net cash inflow delivered from operating activities amounted to RMB375,742,000, with an increase of RMB337,789,000 as compared with last year, which was mainly attributable to the increase of accounts receivable and the strengthening of accounts receivable and accounts payables for the Year.

6.16 Contingent liabilities

As at 31 December 2007, the Group has no significant contingent liabilities.

6.17 Charge on the Group's assets

At 31 December 2007, the Group's bank loans were secured by fixed assets with a net book value of RMB52,493,000.

6.18 Employees of the Group

As at 31 December 2007, the number of employees on the payroll register of the Group was 7,955, including:

	No. of employees
Production and supporting staff	3,448
Sales personnel	2,224
Technical, research and engineering staff	964
Finance and statistics staff	309
Other administrative staff	1,010

112 of the employees were holders of a master degree and 1,478 were holders of a bachelor degree. The number of retirees was 5,491. The total salary payment for the Year was approximately RMB421 million.

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

6.19 Development outlook

In 2008, factors such as adjustments in the national policy regarding the prices of pharmaceutical products, inflation in cost of raw materials, rise in operating expenses and the keen competition in the domestic pharmaceutical market will pose certain impact on the steady growth in sales of the Group. However, factors including the rapid development of Chinese medicines, the emphasis placed on the development of Chinese pharmaceutical companies by various government departments, the growth of popularity of Chinese medicine and rapid development of the OTC market as a result of the new reform on medical system will bring ample development opportunities for the Group's business.

2008 is the "Year of Market Innovation" for the Group. The Group will continue to focus on "spending the best efforts in production, operating and marketing and strengthening management", continue to implement the brand-oriented strategy, to develop new market and new products and cultivate new economic growth area, and thus achieve sustainable, stable and healthy growth of the Group. In 2008, the Group will strive to achieve an annual revenue of RMB14.4 billion (without taking the changes in consolidation of new joint ventures).

The business plans for 2008 mainly include:

1. To continuously enhance the marketing of its core products, strengthen the strategy study on market expansion and improve the market segmentation as well as refined product development of our key products such as Wang Lao Ji Liang Cha series, Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xiao Er Qi Xing Cha and She Dan Chuan Bei Pi Pa Gao series so as to cultivate new economic growth for the enterprise;
2. To continuously accelerate the integration of internal resources to enhance the operating efficiency and effectiveness by means of corporate conformity;

3. To continuously expedite the technological research and development, and accelerate the marketing of Kun Xian Capsule and the application and commercial production of our new products such as Rabies Bacterin, and endeavor to nurture new points of economic growth;
4. To continuously strengthen management capacities and further improve the internal control systems through regulating corporate operating procedures, and particularly, tighten control and management of various costs and accounts receivable so as to increase the operating efficiency.

7 MAJOR EVENTS

7.1 During the Reporting Period, the Company's purchase and disposal of assets (including subsidiaries or joint ventures) or business combination and other transactions

7.1.1 Purchase of assets

Applicable Not applicable

Counterparties	Assets purchased	Date of purchase	Price of purchase (RMB)	Net profits		Connected Transactions (if yes, explain pricing principle)	Assets		Debts	
				from the beginning of the Year	to the end of the Year		involved fully transferred	involved fully transferred		
GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited and five natural persons	26.04% equity interest in aggregate in Guangzhou Han Fang	10 January 2007	23,299,010	—	—	Yes. Price set with reference to asset assessment and by negotiation	No	No	No	No
Pharmaceuticals Corporation	Sui Kang Mansion	27 January 2007	41,116,178	—	—	No	Yes	Yes	Yes	Yes

7.1.2 Disposal of assets

Applicable Not applicable

Counterparties	Assets disposed	Date of disposal	Price of disposal (RMB)	Net profits from of assets since the beginning of the Year		Connected Transactions (if yes, explain pricing principle)	Assets involved		Debts involved	
				to date of disposal	Loss and gain from disposal		fully transferred	fully involved	fully transferred	fully involved
China Pharmaceutical Industrial Co., Ltd	10% of the equity interest in China National Medicines Corporation Ltd.	10 April 2007	11,096,200	—	2,074,454	No	Yes	Yes		

7.1.3 Other transactions during the Reporting Period

Save as the aforementioned, other transactions during the Reporting Period include:

- (1) On 10 January 2007, Guangzhou Han Fang entered into a merger Agreement (the “Agreement”) with Guangzhou Huan Ye. Pursuant to the Agreement, the parties agreed to the merger of Guangzhou Han Fang and Guangzhou Huan Ye through the injection of all the businesses, assets and liabilities of Guangzhou Huan Ye into Guangzhou Han Fang. Upon completion of the merger, Guangzhou Han Fang would be maintained with the dissolution of Guangzhou Huan Ye. The procedures of approval in relation to the above transactions are under way.
- (2) 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, both of which are 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 Capital Increase Contract for Guangzhou Pharmaceuticals Corporation, JV Contract and the Articles of Association of Guangzhou Pharmaceuticals Corporation (revised and restated). The above transactions were completed on 28 January 2008. The joint venture was officially listed on 26 February 2008.

- (3) The Company resolved at the Second Investment Management Committee Meeting for 2007 on 27 June 2007, to agree the capital injection of RMB 135 million to Zhong Yi by installments as the construction funds for GMP II.
- (4) The Company considered and approved at the 4th Meeting of the Fourth Session of the Board on 26 October 2007 the renewal of the Office Building Tenancy Agreement and Accommodation Services Agreement entered into between the Company and the Pharmaceutical Corporation. At the same time, the Premises Tenancy Agreement was signed between the two parties.

7.2 Major 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 (yes or no)
—	—	—	—	—	—	—
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						Nil
Balance of guarantees as at the end of the Reporting Period (RMB'000)						Nil

The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)	379,710
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)	379,710

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

Total amount of guarantees provided (RMB'000)	379,710
% the net assets of the Company (%)	15.89%

Including:

Amount of guarantees provided to the Company's controlling shareholder and other connected parties the Company has a shareholding under 50% (RMB'000)	Nil
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)	369,710
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)	Nil
Total (RMB'000)	369,710

7.3 Major connected transactions

7.3.1 Connected transactions related to daily operations

Applicable Not applicable

Connected Parties	Sales of products and provision of services to connected parties		Purchase of products and services received from connected parties	
	Amount (RMB'000)	Ratio in amount of similar transactions (%)	Amount (RMB'000)	Ratio in amount of similar transactions (%)
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.	26,579	0.22	2,056	0.02
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	24,202	0.20	53,532	0.63
Guangzhou Baiyunshan Tian Xi n Pharmaceutical Co., Ltd.	8,081	0.07	49,554	0.58
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd.	3,600	0.03	29,821	0.35

Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	34,045	0.28	98,538	1.16
Po Lian Development Co., Ltd.	1,394	0.01	111,912	1.31
Guangzhou Pharmaceutical Industrial Research Institute	578	—	1,294	0.02
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	15,342	0.13	60,544	0.71
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan Pharmaceutical General Factory	22,561	0.18	64,699	0.76
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan Pharmaceutical Chemical Factory	10,945	0.09	9,457	0.11
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan External Use Pharmaceutical Factory	2,091	0.02	29,620	0.35
Wang Lao Ji	42,795	0.34	53,096	0.62
Guangzhou Pharmaceutical Soccer Club Co., Ltd.	108	—	—	—
Guangzhou Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	—	—	115	—
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	—	—	298	—

Guangzhou Baxter Qiao Guang Phammaceutical Co., Ltd.	13,266	0.11	130	—
Total	205,587	1.68	564,666	6.63

Including: During the Reporting Period, connected transactions of sales of products or provision of services from the Group to the Company's controlling shareholder and its subsidiaries amounted to RMB205,587,000.

7.3.2 Connected debts

Applicable Not applicable

Connected parties	Provision of capital to connected parties		Provision of capital from connected parties to the Group	
	Initial amount (RMB'000)	Balance (RMB'000)	Initial amount (RMB'000)	Balance (RMB'000)
Amounts receivable and payable:				
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd	31,097	513	2,405	227
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	28,316	3,571	62,633	86
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	9,454	1,320	57,979	4
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd.	4,212	1,710	34,891	2,041
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	39,833	3,747	115,289	590

Guangzhou Hua Nan Medical Apparatus Co., Ltd.	—	—	—	26
Po Lian Development Co., Ltd.	1,630	363	130,937	35,861
Guangzhou Pharmaceutical Industrial Research Institute	676	1	1,513	—
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	17,950	2,454	70,837	1,178
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan Pharmaceutical General Factory	26,396	7,180	75,698	—
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan Pharmaceutical Chemical Factory	12,806	1,184	11,064	—
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan External Use Pharmaceutical Factory	2,447	—	34,655	—
Wang Lao Ji	50,070	490	62,122	3,134
Guangzhou Pharmaceutical Soccer Club Co., Ltd.	126	—	—	—
Guangzhou Baiyunshan Wei Ling Technology Co., Ltd.	—	—	134	84
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	—	—	348	—

Guangzhou Baxter Qian Guang Pharmceutical Co., Ltd.	15,521	1	152	13
Sub total	240,534	22,534	660,657	43,244
Advances and prepayments:				
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	30,545	5,504	7,785	—
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	4	—	114	114
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd.	22,759	6,000	244	41
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	22,676	647	730	—
Guangzhou Pharmaceutical Industrial Research Institute	—	—	675	—
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	1	—	742	—
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan Pharmaceutical General Factory	69	—	2,636	29
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan Chemical Pharmaceutical Factory	—	—	1,171	—

Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Guangzhou Baiyunshan External Use Pharmaceutical Factory	—	—	123	—
Wang Lao Ji	2,258	486	20,244	—
Sub-total	78,312	12,637	34,464	184
Other amounts receivable and payable:				
GPHL	—	3,404	21,768	8,326
Guangzhou Hua Nan Medical Apparatus Co., Ltd	—	100	—	—
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.	1,328	—	—	—
Wang Lao Ji	465	465	—	97
Guangzhou Pharmaceutical Soccer Club Co., Ltd.	1,800	—	—	—
Sub total	3,593	3,969	21,768	8,423
Total	322,439	39,140	716,889	51,851

Including: During the Reporting Period, capital provided by the Group to controlling shareholders and subsidiaries amounted to RMB322,439,000, with a balance of RMB39,140,000.

7.4 Entrusted fund management

Applicable Not applicable

7.5 Performance of the undertakings

Applicable Not applicable

In order to strengthen the confidence of the holders of circulating shares, and subject to relevant laws and regulations, GPHL and Great Wall Corporation, being holders of shares subject to selling restrictions, has undertaken to strictly comply with the relevant requirements of “Administrative Measures for the Reform of the Segmented Share Structure of Listed Companies” and the original shares subject to selling restrictions held by GPHL and Great Wall Corporation shall not be listed and traded, nor transferred within 12 months from the date of implementation of the share reform plan (being 24 April 2006). During the Reporting Period, GPHL and Great Wall Corporation complied with the above undertakings.

7.6 Significant Litigation or Arbitration

Applicable Not applicable

7.7 Other major events and analysis of their impacts and solutions

7.7.1 Investments of securities

Applicable Not applicable

Number	Stock type	Stock code	Stock name	The initial investment amount (RMB,000)	Number of shares held (share)	Book value	% of total investment	Gain/ (Loss)
						as at the end of the Reporting Period (RMB,000)	of securities as at the end of Reporting Period	during the Reporting Period (RMB,000)
1	A Share	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	3,705	67.23	—
2	A Share	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	1,806	32.77	—
Other securities investments held as at end of period				—	—	—	—	—
Gain/(Loss) of disposed securities investments during the Reporting Period				—	—	—	—	—
Total				5,511	28,036	5,511	100.00	—

Note:

In August 2002, the Company acquired the treasury bonds of RMB10 million with its working capital and deposited in the Company's securities account at Nanfang Security Co., Ltd. ("Nanfang Security"). At the end of 2004, the above treasury bonds were confiscated due to the bankruptcy of Nanfang Security.

On 6 December 2007, the property distribution proposal for the first bankruptcy of Nanfang Security was passed at the 2nd meeting of creditors of Nanfang Security. The proposal has obtained approval from Guangdong Province Shenzhen Intermediate People's Court. On 24 December 2007, the Company received the above shares transferred through non-trade transfer method and RMB374,912.55 in cash from the Clearing Unit of Nanfang Security.

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

Applicable Not applicable

Stock Code	Stock name	The initial investment amount (RMB)	Number of shares held (share)	% of shareholding	Book value	Gain/(Loss)	Changes in equity	Accounting item	Sources of shares
					as at the end of the Reporting Period (RMB)	during the Reporting Period (RMB)	during the Reporting Period (RMB)		
601328	Bank of Communications	394	362,729	—	5,666	—	4,246	Financial asstes available for sale	Note
000963	Huadong Medicine Co., Ltd.	127	215,248	0.05	3,552	—	2,188	Financial asstes available for sale	Note

Note: The shares of Bank of Communications and Huadong Medicine Co., Ltd. were being held by the subsidiaries of the Company. Those shares have been listed on the SSE and were calculated as transfer of long term equity investment into disposable financial assets according to New Accounting Standards.

7.7.3 Information on the Company's interests in non-listed financial institutions

Applicable Not applicable

Name	The initial investment amount (RMB,000)	Number of shares held (share)	% of shareholding	Book value	Gain/(Loss)	Changes in equity	Accounting item	Sources of shares
				as at the end of the Reporting Period (RMB,000)	during the Reporting Period (RMB,000)	during the Reporting Period (RMB,000)		
China Everbright Bank Company Limited	10,725	6,050,000	0.07	10,725	—	—	Long-term investment	subscription
Golden Eagle Fund Management Co., Ltd.	20,000	—	20	15,658	7,295	7,295	Long-term investment	subscription
Total	30,725	6,050,000	—	26,383	7,295	7,295		

7.7.4 Information on trading in shares of other listed companies

Applicable Not applicable

7.8 Audit Committee

The Audit Committee of the Fourth Session of the Board is comprised of four Independent Non-executive Directors, one of whom has appropriate professional qualification. The Audit Committee of the Company has reviewed the accounting policies, accounting standards and treatments adopted by the Group, and discussed with the management about the audit, internal controls and financial reporting matters. The Audit Committee has also reviewed the unaudited preliminary accounts for the twelve months ended 31 December 2007. Moreover, the Audit Committee actively worked inline with the requirements set out in the “Notice on 2007 Annual Report” to oversee the auditing work for 2007 and the preparation of the annual report and discharged their duties seriously.

7.9 Compliance with the Code on Corporate Governance Practices

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

7.10 Model Code for Securities Transactions by Directors and Supervisors

The Company had adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules and Measures for the Administration of Trading Shares of the Company by Directors, Supervisors and Senior Management as stipulated by the Company as the standards and criteria for securities transactions entered into by Directors and Supervisors. After specific enquiries made to all Directors and Supervisors, the Company has confirmed that all the Company’s directors and supervisors complied with the standards relating to directors’ and supervisors’ dealing in securities as set out in the above code and criteria during the Reporting Period.

8. REPORT OF THE SUPERVISORY COMMITTEE

The supervisory committee considered that the Company's operations has been in compliance with relevant laws and regulations. There was no problem existed in the Company's financial conditions, use of proceeds raised from the issue of A shares, purchases and sales of assets and connected transactions.

9. FINANCIAL REPORTS

9.1 Audit Opinion

The Group and the Company's accounts for the year ended 31 December 2007 were audited by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report 2008 Yang Cha Zi No. 12928 signed by the two Chinese certified public accountants, Ms. Wu Jiali and Mr. Ye Weixiang, and by PricewaterhouseCoopers Certified Public Accountants, who has issued unqualified auditors' reports thereon.

9.2 Financial Report (prepared in accordance with HKFRS)

9.2.1 Consolidated income statement

		Year ended 31 December	
		2007	2006
	Note	(RMB'000)	(RMB'000)
Sales		12,260,744	10,241,004
Cost of goods sold	4	(10,245,291)	(8,499,060)
Gross profit		2,015,453	1,741,944
Other income - net	3	109,072	75,196
Selling and marketing costs	4	(1,057,294)	(815,931)
Administrative expenses	4	(554,151)	(591,931)
Other operating losses - net		(4,464)	(14,484)
Operating profit		508,616	394,794
Finance costs - net	5	(59,699)	(45,360)
Share of gains/(losses) of associates		7,889	(279)
Profit before income tax		456,806	349,155
Income tax expense	6	(126,955)	(118,567)
Profit for the year		329,851	230,588

Attributable to:			
Equity holders of the Company		320,343	218,067
Minority interest		9,508	12,521
		<u>329,851</u>	<u>230,588</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>0.395</u>	<u>0.269</u>
Dividend	8	<u>100,552</u>	<u>68,116</u>

9.2.2 Consolidated balance sheet

		As at 31 December	
		2007	2006
<i>Note</i>		(RMB'000)	(RMB'000)
ASSETS			
Non-current assets			
	Property, plant and equipment	1,451,847	1,478,262
	Investment properties	76,389	35,413
	Land use rights	122,187	127,800
	Intangible assets	35,870	40,629
	Investments in associates	28,118	44,085
	Available-for-sale financial assets	20,775	30,225
	Deferred income tax assets	53,662	64,952
		1,788,848	1,821,366
Current assets			
	Inventories	1,418,815	1,326,444
	Trade and other receivables	2,401,495	2,004,026
	Financial assets at fair value through profit or loss	5,511	—
	Bank and cash balances	753,174	489,128
		4,578,995	3,819,598
	Total assets	6,367,843	5,640,964

EQUITY

Capital and reserves attributable to equity holders of the Company

Share capital		1,592,034	1,592,034
Other reserves		1,061,328	1,085,486
Retained earnings			
- Proposed final dividend		100,522	68,116
- Others		414,107	151,753
		3,168,021	2,897,389
Minority interest		249,371	182,991
Total equity		3,417,392	3,080,380

LIABILITIES

Non-current liabilities

Deferred income tax liabilities		36,228	41,870
Employee benefits		41,108	50,138
		77,336	92,008

Current liabilities

Trade and other payables	10	1,914,159	1,537,900
Current income tax liabilities		2,468	42,477
Borrowings		956,488	888,199
		2,873,115	2,468,576
Total liabilities		2,950,451	2,560,584

Total equity and liabilities

Net current assets

Total assets less current liabilities

		6,367,843	5,640,964
		1,705,880	1,351,022
		3,494,728	3,172,388

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“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, amendments and interpretations effective in 2007 and relevant to the Group’s operations.

HKFRS 7	Finance Instruments :Disclosures
HKAS 1 Amendment	Presentation of Financial Statements — Capital Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

- (b) Standards, amendments and interpretations effective in 2007 but not relevant to the Group’s operations.

HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

- (c) Standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted by the Group

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 11	HKFRS2-Group and Treasury Share Transactions ³
HK(IFRIC)-Int 12	Service Concession Arrangements ²
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹: Effective for accounting periods commencing on or after 1 January 2009

²: Effective for accounting periods commencing on or after 1 January 2008

³: Effective for accounting periods commencing on or after 1 March 2007

⁴: Effective for accounting periods commencing on or after 1 July 2008

2. Segment information

Primary reporting format — business segments

At 31 December 2007, 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 RMB 12,260,744,000 and RMB 10,241,004,000 for the years ended 31 December 2007 and 2006 respectively.

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

The segment results are as follows:

	Year ended 31 December 2007					
	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	2,907,352	9,972,784	353,687	227,592	(1,200,671)	12,260,744
Inter-segment sales	(74,514)	(1,083,372)	(14,700)	(28,085)	1,200,671	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sales	2,832,838	8,889,412	338,987	199,507	—	12,260,744
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment results	364,450	157,233	9,791	4,237	(65,105)	470,606
Unallocated profit						38,010
						<hr/>
Operating profit						508,616
Finance costs - Net						(59,699)
Share of profit of associates						7,889
						<hr/>
Profit before income tax						456,806
Income tax expenses						(126,955)
						<hr/>
Profit for the year						<u><u>329,851</u></u>

Year ended 31 December 2006

	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	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	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sales	2,412,184	7,267,373	335,872	225,575	—	10,241,004
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment results	296,403	138,037	9,427	6,319	(42,640)	407,546
Unallocated cost						(12,752)
						<hr/>
Operating profit						394,794
Finance costs						(45,360)
Share of losses of associates						(279)
						<hr/>
Profit before income tax						349,155
Income tax expenses						(118,567)
						<hr/>
Profit for the year						<u><u>230,588</u></u>

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

	Year ended 31 December 2007					
	Manufacturing	Wholesale	Retail	Import		Group
				and export	Unallocated	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Depreciation	90,302	15,371	2,798	178	3,291	111,940
Amortisation	13,039	5,705	—	—	245	18,989
Impairment of inventories	11,898	722	—	—	—	12,620
Impairment of trade and other receivables	10,917	5,195	—	—	—	16,112
Reversal of impairment for trade and other receivables	(833)	—	—	—	(5,603)	(6,436)
Impairment of property, plant, and equipment	—	44	—	—	—	44
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	Year ended 31 December 2006					
	Manufacturing	Wholesale	Retail	Import		Group
				and export	Unallocated	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(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 impairment for inventories	—	(643)	(672)	—	—	(1,315)
Impairment of trade and other receivables	3,240	8,893	(45)	796	—	12,884
Reversal of impairment for trade and other receivables	(2,083)	—	—	—	—	(2,083)
Impairment of property, plant, and equipment	108	101	—	—	—	209
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The segment assets and liabilities at 31 December 2007 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	2,743,264	3,349,140	161,609	120,207	751,346	(785,841)	6,339,725
Associates	9,224	—	—	—	18,894	—	28,118
Total assets	2,752,488	3,349,140	161,609	120,207	770,240	(785,841)	6,367,843
Liabilities	625,192	2,891,969	88,265	97,278	33,588	(785,841)	2,950,451
Capital expenditure	101,912	11,930	1,002	21	394	—	115,259

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
Total assets	2,653,920	2,781,627	182,883	111,858	605,250	(694,574)	5,640,964
Liabilities	642,373	2,346,688	87,416	86,370	92,311	(694,574)	2,560,584
Capital expenditure	86,397	10,222	1,074	491	3,710	—	101,894

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. These inter-segment transactions mentioned above are eliminated on consolidation level.

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 other corporate unallocated assets.

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

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

3 Other income — net

	2007 (RMB'000)	2006 (RMB'000)
Gain from dilution of equity interest in a subsidiary	28,833	—
Gross rental income from investment properties	40,915	36,743
Dividend income from		
available-for-sale financial assets	440	4,567
Income from disposals of available-for-sale		
financial assets at fair value	3,097	—
Income from disposals of financial assets		
at fair value through profit and loss	—	6,038
Others	35,787	27,848
	<u>109,072</u>	<u>75,196</u>

4 Expenses by nature

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

	2007 (RMB'000)	2006 (RMB'000)
Depreciation and amortisation	130,929	145,428
Impairment charge of available-for-sale financial assets	1,731	1,769
Impairment charge of property, plant, and equipment	44	209
Decline in value of financial assets at fair value through profit or loss	—	1,951
Impairment charge of receivables, net of reversal	9,676	10,801
Net impairment charge of inventories	12,620	2,627
Outgoings in respect of investment properties	2,711	3,809
Loss on disposal of property, plant, and equipment	1,916	2,516
Research and development expenses	44,782	36,926
Transportation	69,337	59,397
Advertising costs	253,045	206,110
Changes in finished goods and work in progress	(46,129)	(23,235)
Raw materials and consumables used	1,642,338	1,248,465
Changes in merchandise	(55,342)	(109,095)
Merchandise purchased	8,530,702	7,221,571
Auditors' remuneration	3,590	3,488
Operating leases for buildings	39,242	33,034
Employee benefit expenses (including directors' and supervisors emoluments)	666,629	680,823
Other expenses	548,915	380,328
	<hr/>	<hr/>
Total cost of goods sold, selling and marketing costs and administrative expenses	11,856,736	9,906,922

5 Finance costs — net

	2007 (RMB'000)	2006 (RMB'000)
Interest expense on borrowings	56,936	46,510
Other incidental borrowing costs	10,697	8,603
	<hr/>	<hr/>
Finance costs	67,633	55,113
Less: Finance income — Interest income	(7,934)	(9,753)
	<hr/>	<hr/>
Finance costs — net	<u>59,699</u>	<u>45,360</u>

6 Income tax expense

The PRC enterprise income tax has been provided at the principal rate of 33% (2006: 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 four subsidiaries which are qualified as “Advanced Technology Enterprise”. The subsidiary is a production enterprise with foreign investment and the applicable enterprise income tax rate is 24%. The applicable tax rate of the jointly controlled entity is 24% and it is also 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 four subsidiaries qualified as “Advanced Technology Enterprise” is 15%.

Effective from 1 January 2008, the Company shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the applicable income tax rate of the companies within the Group is 25% from 1 January 2008.

	2007 <i>(RMB'000)</i>	2006 <i>(RMB'000)</i>
Current income tax - Current income tax	116,299	130,826
Deferred income tax	10,656	(12,259)
	<u>126,955</u>	<u>118,567</u>

7 Earnings per share

The calculation of earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company of RMB320,343,000 (2006: RMB218,067,000) and the 810,900,000 (2006: 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 2007 and 2006.

8 Dividend

	2007 <i>(RMB'000)</i>	2006 <i>(RMB'000)</i>
Final, proposed, of RMB0.124 (2006: RMB0.084) per share	<u>100,552</u>	<u>68,116</u>

At a meeting held on 28 March 2008, the directors declared a final dividend of RMB0.124 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 2008.

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

9 Trade and other receivables

	2007 <i>(RMB'000)</i>	2006 <i>(RMB'000)</i>
Trade receivables	1,687,671	1,401,804
Less: provision for impairment of receivables	(50,957)	(45,362)
Trade receivables — net	1,636,714	1,356,442
Bills receivable	541,646	380,010
Other receivables and prepayments	219,731	263,503
Due from		
Ultimate holding company	3,404	4,071
	<u>2,401,495</u>	<u>2,004,026</u>

Except for an aggregate amount of RMB17,346,000 dominated in US dollars or HK dollars, all trade and other receivables are dominated in RMB and aged within one year with the net book values of which approximate to the fair values.

	2007 <i>(RMB'000)</i>	2006 <i>(RMB'000)</i>
Within 6 months	1,593,017	1,306,538
6 months to 1 year	45,964	51,497
Over 1 year	48,690	43,769
	<u>1,687,671</u>	<u>1,401,804</u>

10 Trade and other payables

	2007 (RMB'000)	2006 (RMB'000)
Trade payables	1,556,404	1,067,798
Due to		
Ultimate holding company	5,142	16,994
Other payables and accrued charges	352,613	453,108
	<u>1,914,159</u>	<u>1,537,900</u>

The ageing analysis of trade payables as at 31 December is as follows:

	2007 (RMB'000)	2006 (RMB'000)
Within 1 year	1,523,036	1,019,514
1 year to 2 years	20,543	25,241
Over 2 years	12,825	23,043
	<u>1,556,404</u>	<u>1,067,798</u>

9.3 Explanation on possible changes in accounting policies, estimation and audit method when compared with the 2006 annual report.

Applicable Not applicable

With effect from 1 January 2007, the Group has applied the new Accounting Standards for Business Enterprises (the “New Accounting Standards”) and has revised its accounting policies accordingly. In the meantime, in preparation of the comparative financial statements, adjustment has been made to aspects including consolidation scope, income tax and provision for employee benefits in medical insurance and relevant figures have been restated in accordance with the “Standard No.7 Regarding the Rules on Information Disclosure for Companies that Publicly Offer Securities Compilation and Disclosure of Comparative Financial and Accounting Information During the Transition Period between the New and Old Accounting Standards”.

- (1) Impact of the New Accounting Standards and the original Accounting Standards for Business Enterprises (the “Old Accountign Standards”) on shareholders’ equity

Adjustment to shareholders’ equity as at 1 January 2007

Items	The Old Accounting Standards <i>(RMB)</i>	The New Accounting Standards <i>(RMB)</i>	Change <i>(%)</i>
Share capital	810,900,000.00	810,900,000.00	—
Capital reserve	1,153,220,469.96	1,154,046,470.01	0.07
Surplus reserve	648,062,853.70	548,772,075.44	(15.32)
Retained profit	175,904,623.97	276,679,688.17	57.28
Total shareholders’ equity attributable to the Shareholders of the Company	2,788,087,947.63	2,790,398,233.62	0.08
Minority interest	166,089,379.65	166,444,059.04	0.21
Total shareholders’ equity	2,954,177,327.28	2,956,842,292.66	0.09

- (2) Impact of the New Accounting Standards and the Old Accountign Standards on net profit

Items	Amount <i>(RMB)</i>
Net profit for 2006 (the Old Accounting Standards)	227,327,746.74
Total amount as restated	21,915,115.36
Including: 1. Effects of long-term liabilities	10,019,158.99
2. Deferred income tax assets	(292,946.16)
3. Balance of long-term equity investment	377,884.28
4. Goodwill not under the same contoll	120,102.22
5. Effects of consolidation scope under the New Accounting Standards	(41,434.90)
6. Minority interests	11,732,350.93
Net profit for 2006 (the New Accounting Standards)	<u>249,242,862.10</u>

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

Applicable Not applicable

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

Applicable Not applicable

During the Reporting Period, one entity was included in the scope of consolidated financial statements of the Group, because the Company indirectly holds 51% equity interest in Guangzhou Jing Xiu Tang 1790 Marketing Co., Ltd and exercises control in its finance and operation through Jing Xiu Tang, a subsidiary, and the former was proportionally consolidated in accordance with the Old Accounting Standards based on the principle of importance. In accordance with “Accounting Standards for Business Enterprises No. 33-Consolidated Financial Statements”, Guangzhou Jing Xiu Tang 1790 Marketing Co., Ltd has been included in the scope of consolidated financial statements of the Group since the year 2007.

By order of the Board

He Shahua

Secretary to the Board

Guangzhou, the PRC, 28 March 2008

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Shi Shaobin and Mr. Feng Zansheng as Executive Directors, and Mr. Wong Hin Wing,, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua as Independent Non-executive Directors.