年報

2008 Annual Report

廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(Stock code: 874)

Contents

Important Notice

I. The Board of Directors (the "Board"), the Supervisory Committee (the "Supervisory Committee") of Guangzhou Pharmaceutical Company Limited ("GPC" or the "Company") and its Directors, Supervisors and Senior Management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false information, misleading statements or material omissions in this report.

II. Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd., the domestic auditors, and PricewaterhouseCoopers Certified Public Accountants, the international auditors, have audited the financial reports of the Company together with its subsidiaries (collectively the "Group") and the Company for the year ended 31 December 2008 (the "Reporting Period" or the "Year") and issued unqualified auditors' reports thereon.

III. Mr. Yang Rongming (Chairman of the Board), Mr. Shi Shaobin (Director and General Manager), and Mr. Chen Binghua (Financial Controller and Senior Manager of the Finance Department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this report.

IV. This report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial reports prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the international auditor's report thereon, the Chinese version shall prevail.

Company Profile

I.	Legal Chinese name:	廣州藥業股份有限公司
	Chinese name abbreviation:	廣州藥業
	English name:	Guangzhou Pharmaceutical Company Limited
	English name abbreviation:	GPC
II.	Legal representative:	Yang Rongming
III.	Secretary of the Board:	Pang Jianhui
	Representative of securities affairs:	Huang Xuezhen
	Address:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
	Telephone:	(8620) 8121 8084/8121 8119
	Fax:	(8620) 8121 6408
	E-mail:	pangjh@gpc.com.cn/huangxz@gpc.com.cn
IV.	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
	Principal place of business in Hong Kong:	Room 2005, 20th Floor, Tower Two Lippo Center 89 Queensway, Hong Kong
V.	Designated newspapers for information disclosure:	Mainland China: Shanghai Securities News
	Internet website designated by the China Securities Regulatory Commission for publishing this annual report:	http://www.sse.com.cn
	Internet website designated by The Stock Exchange of Hong Kong Limited for publishing this annual report:	http://www.hkex.com.hk
	Place where this annual report is available for inspection:	The Secretariat of Guangzhou Pharmaceutical Company Limited

Company Profile

VI.	Place of listing, name and codes of the Company's shares:	A Shares: The Shanghai Stock Exchange Stock Code: 600332 Stock Abbreviation: GZ Phar. H Shares: The Stock Exchange of Hong Kong Limited Stock Code: 0874 Stock Abbreviation: GZ Phar.
VII.	Other corporate information:	
	First registration date:	1 September 1997
	First place of registration:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
	Registration date for subsequent change:	14 August 2007
	Place of registration for subsequent change:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
	Business registration number:	4401011101830
	Tax registration number:	44010063320680x
	Organization code:	63320680-X
	Auditors:	PRC auditors: Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd 11th Floor, Yao Zhong Plaza, No. 3~15 Linhexi Road, Tianhe District, Guangzhou, Guangdong, the PRC International auditors: PricewaterhouseCoopers Certified Public Accountant 22nd Floor, Prince's Building, Central, Hong Kong

Financial Data and Financial Highlights

I. EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS

Items	2008 (RMB'000)
Operating profit	176,043
Total profit	202,179
Net profit attributable to the shareholders of the Company	182,496
Net profit attributable to the shareholders of the Company after deducting non-operating items	87,698
Net cash flow from operating activities	6,103

Notes:

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

2. Items and amounts related to non-operating items include:

Items	Amount (RMB'000)	Remarks
Gain/(loss) on disposal of non-current assets	18,795	Among which, net gain/loss on disposal of long-term equity investment of RMB19,608,000 is the gain on investment recognized in equity interest transfer from the Company's subsidiaries to Guangzhou Pharmaceuticals Corporation ("GP Corp.") and transfer of equity interest in Guangzhou Jihua Medical Apparatus and Instruments Co., Ltd ("Jihua Company") by the Company.
Government subsidies recognized as gain/(loss)	18,385	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
Capital use fee received from non-financial enterprises recognized as gain/(loss)	3,976	

Items	Amount (RMB'000)	Remarks
Gain/(loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	**(2,503)**	
Write back of provision for impairment of accounts receivables undergoing independent impairment test	**531**	
Gain/(Loss) received from external custodian loans	**7,571**	This is the net interest income received for the provision of custodian loans from the Company to the joint venture GP Corp.
Gain on subscription of new shares	**49,848**	This is the gain on joint venture premium recognized by the Company from GP Corp., which turned into a joint venture of the Company instead of a subsidiary, upon the completion of its joint venture project in January 2008.
Other non-operating income and expenses excluding the above items	**8,564**	
Other gain/loss items within the definition of extraordinary gain/loss	**–**	
Income tax effect	**(7,720)**	
Effect on minority interest	**(2,649)**	
Total	**94,798**	

Financial Data and Financial Highlights

II. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS AND HKFRS

	note	As at 31 December 2008 (RMB'000)	As at 31 December 2007 (RMB'000) (Restated)
Net Assets under PRC Accounting Standards		**3,124,842**	3,060,348
Intangible assets capitalised	1	**–**	16,669
Difference arising from fixed assets revaluation	2	**118,761**	123,728
Deferred government subsidies	3	**(2,387)**	(2,833)
Difference in minority interests	5	**(14,219)**	(13,989)
Revaluation of investment properties	6	**64,733**	19,634
Net effect of deferred tax	4	**(46,425)**	(35,536)
Capital and reserves attributable to equity holders of the Company under HKFRS		**3,245,305**	3,168,021

	note	2008 (RMB'000)	2007 (RMB'000) (Restated)
Net profit under PRC Accounting Standards		**182,496**	335,094
Amortisation of intangible assets	1	**(16,669)**	(10,337)
Additional depreciation on revalued fixed assets	2	**(4,967)**	(2,819)
Government subsidies recognized as deferred income through profit and loss	3	**446**	446
Provision for deferred taxation	4	**(6,402)**	652
Difference in minority interest	5	**(230)**	(294)
Difference arising from investment properties in cost model and fair value model	6	**27,155**	1,327
Appropriation of staff bonus and welfare fund charged as expenses	7	**–**	(3,726)
Profit attributable to equity holders of the Company under HKFRS		**181,829**	320,343

Notes:

1. This represents the staff quarter reform costs incurred by the Group prior to 2000 in relation to purchases for staff quarters by its employees. Under HKFRS, such cost is recognised as an intangible asset and is subject to amortisation on a straight-line basis to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC Accounting Standards the staff quarter reform costs were written off against retained earnings of the year in which they were incurred.

II. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS AND HKFRS *(Continued)*

2. The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing the Group's H shares. The revaluation has been reflected in the financial statements of the Group prepared under HKFRS but not in the financial statements prepared under PRC Accounting Standards. The depreciation charge under HKFRS is higher than that calculated under PRC Accounting Standards as the depreciation charge under HKFRS is based on the revalued amount of fixed assets.

3. Prior to the adoption of the new PRC Accounting Standards, government subsidies granted in relation to purchases of fixed assets was recognised as capital reserve. Under both HKFRS and new PRC Accounting Standards, government subsidies in relation to purchase of fixed assets is recognised as deferred income and credited to the income statement on a straight line basis in accordance with the estimated useful lives of the assets.

4. This represents the deferred tax liabilities arising from the assets revaluation as described in note 2 and note 6.

5. Due to the reconciliation items above, there is a difference in net profit/profit attributable to equity holders of the Company prepared under PRC Accounting Standards and HKFRS. This results in a difference in the minority interest.

6. The Group's investment properties are measured with historical cost under PRC Accounting Standards, while they are measured with fair value in the financial statements prepared under HKFRS.

7. This is the staff bonus and welfare fund appropriated from profit after taxation in the financial statements prepared under PRC Accounting Standard, while under HKFRS, it is recognised as expenses in the income statement of the year.

III. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

1. Financial statements prepared in accordance with the PRC Accounting Standards

Principal accounting data	**2008**	2007		Year on year	2006	
		After adjustment	Before adjustment	growth/ decrease(%)	After adjustment	Before adjustment
Income from operations (RMB'000)	**3,527,424**	11,937,487	12,320,777	(70.45)	10,106,951	10,296,317
Total profit (RMB'000)	**202,179**	465,114	472,263	(56.53)	377,921	381,182
Net profit attributable to the shareholders of the Company (RMB'000)	**182,496**	335,094	335,147	(45.54)	233,936	237,511
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	**87,698**	292,687	294,016	(70.04)	233,992	238,049
Net cash flow from operating activities (RMB'000)	**6,103**	269,396	375,742	(97.73)	14,933	37,953

	As at 31 December 2008	As at 31 December 2007		Year on year	As at 31 December 2006	
		After adjustment	Before adjustment	growth/ decrease(%)	After adjustment	Before adjustment
Total assets (RMB'000)	**4,130,904**	6,165,542	6,206,944	(33.00)	5,453,318	5,463,683
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	**3,124,842**	3,060,348	3,060,348	2.11	2,790,398	2,790,398

Financial Data and Financial Highlights

III. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS *(Continued)*

1. Financial statements prepared in accordance with the PRC Accounting Standards *(Continued)*

Principal financial indicators	2008	2007 After adjustment	2007 Before adjustment	Year on year growth/ decrease (%)	2006 After adjustment	2006 Before adjustment
Basic earnings per share (RMB)	**0.225**	0.413	0.413	(45.54)	0.288	0.293
Diluted earnings per share (RMB)	**0.225**	0.413	0.413	(45.54)	0.288	0.293
Basic earnings per share after deducting non-operating items (RMB)	**0.108**	0.361	0.363	(70.04)	0.289	0.294
Fully diluted return on net assets (%)	**5.84**	10.95	10.95	With a decrease of 5.11 percentage points	8.38	8.51
Weighted average return on net assets (%)	**5.88**	11.46	11.46	With a decrease of 5.58 percentage points	8.66	8.79
Ratio of fully diluted return on net assets after deducting non-operating items (%)	**2.81**	9.56	9.61	With a decrease of 6.75 percentage points	8.39	8.53
Weighted average return on net assets after deducting non-operating items (%)	**2.83**	10.01	10.06	With a decrease of 7.18 percentage points	8.66	8.81
Net cash flow from operating activities per share (RMB)	**0.01**	0.33	0.46	(97.73)	0.02	0.05

	As at 31 December 2008	As at 31 December 2007 After adjustment	As at 31 December 2007 Before adjustment	Year on year growth/ decrease (%)	As at 31 December 2006 After adjustment	As at 31 December 2006 Before adjustment
Net assets per share attributable to the shareholders of the Company (RMB)	**3.85**	3.77	3.77	2.11	3.44	3.44

Notes:

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

2. Pursuant to the requirements of Accounting Standard for Business Enterprises Interpretation No. 2 promulgated by the Ministry of Finance in August 2008, joint ventures including Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji") and GP Corp. were accounted for using equity method by the Group in 2008, and changes in the relevant data in the consolidated financial statements were comparatively significant. The operating results of Wang Lao Ji and GP Corp. for 2008 are set out in the "Report of the Directors" of the annual report.

III. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS *(Continued)*

2. Financial statements prepared in accordance with HKFRS

Items	**2008**	2007 *(Restated)*	2006 *(Restated)*	2005 *(Restated)*	2004
Turnover (RMB'000)	**3,450,586**	11,873,514	10,049,019	8,784,537	7,709,565
Profit before income tax (RMB'000)	**208,552**	449,710	349,155	315,493	161,675
Profit attributable to equity holders of the Company (RMB'000)	**181,829**	320,343	218,067	197,804	42,829
Earnings per share (RMB)	**0.22**	0.40	0.27	0.24	0.05

Items	**As at 31 December 2008**	As at 31 December 2007 *(Restated)*	As at 31 December 2006 *(Restated)*	As at 31 December 2005 *(Restated)*	As at 31 December 2004
Total assets (RMB'000)	**4,354,664**	6,351,721	5,610,740	5,293,769	5,413,438
Total liabilities (RMB'000)	**993,899**	2,934,329	2,530,360	2,368,539	2,655,559
Capital and reserves attributable to equity holders of the Company (RMB'000)	**3,245,305**	3,168,021	2,897,389	2,737,123	2,545,592
Capital and reserves per share attributable to equity holders of the Company (RMB)	**4.00**	3.91	3.57	3.36	3.14
Return on capital and reserves attributable to equity holders of the Company (%)	**5.60**	10.11	7.53	7.26	1.68
Ratio of capital and reserves attributable to equity holders of the Company to total assets (%)	**74.52**	49.88	51.64	51.70	47.02
Gearing ratio (%) (Note)	**22.82**	46.20	45.10	44.75	49.05

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

IV. CHANGES IN SHAREHOLDERS' EQUITY DURING THE YEAR 2008 (CONSOLIDATED)

1. Extracted from the accounts prepared in accordance with the PRC Accounting Standards

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Surplus reserve (RMB'000)	Retained earnings (RMB'000)	Total shareholders' equity (RMB'000)
Opening balance	810,900	1,160,741	585,798	502,909	3,060,348
Additions	–	–	37,285	267,272	304,557
Deductions	–	17,450	84,776	137,837	240,063
Closing balance	810,900	1,143,291	538,307	632,344	3,124,842

Reasons for the changes:

(1) The reasons for the movements of capital reserve:

1. The fair value movement in available-for-sale financial assets held by the subsidiaries of the Company resulted in the decrease in capital reserve. The Group reduced capital reserve of RMB2,126,000 in accordance with the proportion of equity interest held.

2. The Company transferred its equity interest of Jihua Company during the Year and the capital reserve was reduced by RMB68,000.

3. The Company's joint venture GP Corp. reduced capital reserve in the Year. The Group reduced capital reserve of RMB532,000 in accordance with the proportion of equity interest held therein.

4. The Company's joint venture Wang Lao Ji reduced capital reserve in the Year. The Group reduced capital reserve of RMB1,096,000 in accordance with the proportion of equity interest held therein.

5. The Company increased capital in Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd ("Guangzhou Han Fang") with a premium during the Year and reduced capital reserve of RMB12,725,000 accordingly.

6. The Company increased capital in Guangzhou Baidi Bio-technology Co., Ltd. ("Guangzhou Bai Di") with a premium during the Year and reduced capital reserve of RMB903,000 accordingly.

(2) The reasons for the movements of surplus reserve: The decrease in surplus reserve in the Reporting Period was due to that GP Corp. was no longer included in the scope of consolidation of the Group as at the end of the Year and was computed in equity method.

IV. CHANGES IN SHAREHOLDERS' EQUITY DURING THE YEAR 2008 (CONSOLIDATED) *(Continued)*

2. Extracted from the accounts prepared in accordance with HKFRS

	Share capital (RMB'000)	Capital reserve (RMB'000)	Statutory surplus reserve (RMB'000)	Discretionary surplus reserve (RMB'000)	Investment property (RMB'000)	Available-for-sale financial assets (RMB'000)	Asset revaluation surplus (RMB'000)	Retained earnings (RMB'000)	Total (RMB'000)
At 1 January 2008	1,592,034	339,367	404,084	203,789	14,009	7,520	92,559	514,659	3,168,021
Assets revaluation – total	-	-	-	-	-	(2,898)	-	-	(2,898)
Assets revaluation – taxation	-	-	-	-	-	772	-	-	772
Assets revaluation – joint ventures	-	-	-	-	-	(1,629)	-	-	(1,629)
Initial revaluation surplus of investment real estate – total	-	-	-	-	17,944	-	-	-	17,944
Initial revaluation surplus of investment real estate – taxation	-	-	-	-	(4,486)	-	-	-	(4,486)
Depreciation change on asset revaluation surplus – total	-	-	-	-	-	-	(4,967)	4,967	-
Depreciation transfer on asset revaluation surplus – taxation	-	-	-	-	-	-	1,242	(1,242)	-
Disposal of an associate	-	(68)	-	-	-	-	-	-	(68)
Acquisition of interests in subsidiaries from minority shareholders	-	(13,628)	-	-	-	-	-	-	(13,628)
Dividend relating to 2007	-	-	-	-	-	-	-	(100,552)	(100,552)
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution)	-	-	(126,183)	-	-	-	-	126,183	-
Appropriation to surplus reserves	-	-	56,617	-	-	-	-	(56,617)	-
Others	-	446	-	-	-	-	-	(446)	-
Profit for the year	-	-	-	-	-	-	-	181,829	181,829
At 31 December 2008	1,592,034	326,117	334,518	203,789	27,467	3,765	88,834	668,781	3,245,305

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

1. Movement in share capital and its components

	Before change		Change					After change	
	Number of shares (share)	Percentage (%)	New issue (share)	Bonus issue (share)	Reserves capitalized (share)	Others (listing and trading of tradable shares with selling restrictions) (share)	Sub-total (share)	Number of shares (share)	Percentage (%)
I. Shares with selling restrictions									
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by State-owned legal entities	362,948,509	44.76	–	–	–	(20,747,000)	(20,747,000)	342,201,509	42.20
3. Other domestic shares	65,110,000	8.03	–	–	–	(19,798,000)	(19,798,000)	45,312,000	5.59
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 number of shares with selling restrictions	428,058,509	52.79	–	–	–	(40,545,000)	(40,545,000)	387,513,509	47.79
II. Shares without selling restrictions									
1. Renminbi-denominated ordinary shares	162,941,491	20.09	–	–	–	40,545,000	40,545,000	203,486,491	25.09
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 number of shares without selling restrictions	382,841,491	47.21	–	–	–	40,545,000	40,545,000	423,386,491	52.21
III. Total number of shares	810,900,000	100.00	–	–	–	–	–	810,900,000	100.00

I. CHANGES IN SHARE CAPITAL *(Continued)*

1. Movement in share capital and its components *(Continued)*

On 24 April 2008, among the shares of GPC held by the controlling shareholder of the Company, namely Guangzhou Pharmaceutical Holdings Limited ("GPHL"), 23,711,737 shares with selling restrictions became tradable shares. In addition, 4,030,000 shares, 3,321,263 shares, 7,707,800 shares, 284,200 shares and 1,490,000 shares of GPC held respectively by Guangzhou Xinjiao Rural Credit Cooperative ("Xinjiao Cooperative"), Guangzhou Xinfeng Rural Credit Cooperative ("Xinfeng Cooperative"), Guangzhou Beicheng Rural Credit Cooperative ("Beicheng Cooperative"), Guangzhou Baiyun Rural Credit Cooperative ("Baiyun Cooperative") and Guangzhou Huangshi Rural Credit Cooperative ("Huangshi Cooperative"), which were shares with selling restrictions, became tradable shares on the same day.

2. Changes of shares with selling restrictions

Shareholders	Number of shares with selling restrictions before change (share)	Number of shares with selling restrictions involved (share)	Number of shares with selling restrictions after change (share)	Reasons of change	Date of change
GPHL	362,948,509	2,964,737	365,913,246	Recovery of advanced share reform consideration	15 April 2008
	365,913,246	(23,711,737)	342,201,509	Listing and trading of shares with selling restriction	24 April 2008
Xinjiao Cooperative	4,220,000	(190,000)	4,030,000	Repayment of advanced share reform consideration	15 April 2008
	4,030,000	(4,030,000)	0	Listing and trading of shares with selling restriction	24 April 2008
Xinfeng Cooperative	3,480,000	(158,737)	3,321,263	Repayment of advanced share reform consideration	15 April 2008
	3,321,263	(3,321,263)	0	Listing and trading of shares with selling restrictions	24 April 2008
Beicheng Cooperative	46,670,000	(2,128,000)	44,542,000	Repayment of advanced share reform consideration	15 April 2008
	44,542,000	(7,707,800)	36,834,200	Listing and trading of shares with selling restrictions	24 April 2008
Baiyun Cooperative	1,720,000	(78,000)	1,642,000	Repayment of advanced share reform consideration	15 April 2008
	1,642,000	(284,200)	1,357,800	Listing and trading of shares with selling restriction	24 April 2008
Huangshi Cooperative	9,020,000	(410,000)	8,610,000	Repayment of advanced share reform consideration	15 April 2008
	8,610,000	(1,490,000)	7,120,000	Listing and trading of shares with selling restrictions	24 April 2008
Total	428,058,000	40,545,000	387,513,509		

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL *(Continued)*

3. Securities issuance in the past 3 years

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

4. Internal staff shares

The Company does not have any internal staff shares.

II. INFORMATION ON SHAREHOLDERS

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

As at 31 December 2008, there were 42,473 shareholders in total, out of which 42,445 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 28 were holders of overseas listed foreign capital shares (H shares).

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

As at 31 December 2008, the interests and short positions held by the persons (not being the Directors, Supervisors and Senior Management of the Company) in the shares and underlying shares of the Company which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKEx") pursuant to Divisions 2 and 3 of Part XV Disclosure of Interest of Chapter 571 of the Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

<table>
<tr><th rowspan="2">Shareholders</th><th rowspan="2">Nature of shares</th><th colspan="2">Long Positions</th><th rowspan="2">Approximate % of the total issued domestic shares (%)</th><th rowspan="2">Approximate % of the total issued H shares (%)</th></tr>
<tr><th>Number of shares held (share)</th><th>Capacity</th></tr>
<tr><td>GPHL</td><td>Domestic shares</td><td>390,833,391</td><td>beneficial owner</td><td>66.13</td><td>–</td></tr>
<tr><td>Beicheng Cooperative</td><td>Domestic shares</td><td>44,542,000</td><td>beneficial owner</td><td>7.54</td><td>–</td></tr>
<tr><td rowspan="4">Deutsche Bank Aktiengesellschaft</td><td rowspan="4">H shares</td><td>19,177,135
Of which:</td><td></td><td></td><td rowspan="4">8.72</td></tr>
<tr><td>937</td><td>beneficial owner</td><td>–</td></tr>
<tr><td>9,089,298</td><td>investment manager</td><td>–</td></tr>
<tr><td>10,086,900</td><td>holders of assured entitlements of shares</td><td>–</td></tr>
<tr><td>Wellington Management Company, LLP</td><td>H shares</td><td>13,141,000</td><td>investment manager</td><td>–</td><td>5.98</td></tr>
<tr><td>Martin Currie (Holdings) Limited</td><td>H shares</td><td>15,848,000</td><td>interest in controlled company</td><td>–</td><td>7.21</td></tr>
</table>

II. INFORMATION ON SHAREHOLDERS *(Continued)*

2. Shareholders' interests and short positions in the shares and underlying shares of the Company *(Continued)*

Note: As notified by HKSCC Nominees Limited, as at 31 December 2008, the H shares held by each corporation in its securities account with the Central Clearing and Settlement System amounted to more than 5% of the total issued H shares of the Company.

As far as the Directors are aware, as at 31 December 2008, other than those listed above, there was no other person or corporation having an interest or short position representing 5% or more of any class of the issued share capital of the Company.

3. The top ten shareholders of the Company

The top ten shareholders of the Company as at 31 December 2008 are set out as follows:

Shareholders	Nature of shares	Increase/Decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate % of the total issued share capital (%)	Number of shares with selling restrictions held (share)	Number of pledged or locked shares (share)
GPHL	Domestic shares	3,464,737	390,833,391	48.20	342,201,509	Nil
HKSCC Nominees Limited	H shares	(205,000)	219,307,299	27.04	Nil	Unknown
Beicheng Cooperative	Domestic shares	(2,128,000)	44,542,000	5.49	36,834,200	Nil
Bank of China –Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	Domestic shares	1,749,290	12,560,070	1.55	Nil	Unknown
Agricultural Bank of China – Zhongyou Core Prime Equity Securities Investment Fund	Domestic shares	10,297,477	10,297,477	1.27	Nil	Unknown
Huangshi Cooperative	Domestic shares	(496,000)	8,524,000	1.05	7,120,000	Nil
Weng Shaoqing	Domestic shares	4,000,000	4,000,000	0.49	Nil	Unknown
China Construction Bank – Hua Bao Industrial Featured Equity Securities Investment Fund	Domestic shares	3,605,020	3,605,020	0.44	Nil	Unknown
Baiyun Cooperative	Domestic shares	(78,000)	1,642,000	0.20	1,357,800	Nil
ICBC – Nangfang Longyuan Production Themed Equity Securities Investment Fund	Domestic shares	1,636,016	1,636,016	0.20	Nil	Unknown

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

3. The top ten shareholders of the Company *(Continued)*

Notes:

(1) During the Reporting Period, GPHL purchased 500,000 A shares of the Company through the secondary market, representing 0.06% of the total issued share capital of the Company.

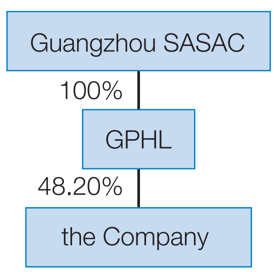
(2) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

(3) Except for the shareholding investment rights of Beicheng Cooperative, Huangshi Cooperative and Baiyun Cooperative in the Company belonging to Guangzhou Rural Credit Cooperative Union, the Company was not aware of any connection among other shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

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

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
% of shares held	48.20%
Legal representative	Yang Rongming
Date of establishment	7 August 1996
Registered capital	RMB1,007.7 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.

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



II. INFORMATION ON SHAREHOLDERS *(Continued)*

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

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

6. As at 31 December 2008, the Company's top ten shareholders holding the shares without selling restrictions and their shareholdings were as follows:

Shareholders	Number of shares without selling restrictions held (share)	Nature of shares
HKSCC Nominees Limited	219,307,299	H shares
GPHL	48,631,882	Domestic shares
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	12,560,070	Domestic shares
Agricultural Bank of China – Zhongyou Core Prime Equity Securities Investment Fund	10,297,477	Domestic shares
Beicheng Cooperative	7,707,800	Domestic shares
Weng Shaoqing	4,000,000	Domestic shares
China Construction Bank – Hua Bao Industrial shares Featured Equity Securities Investment Fund	3,605,020	Domestic shares
ICBC – Nangfang Longyuan Production Themed shares Equity Securities Investment Fund	1,636,016	Domestic shares
Bank of Communication – HSBC Jintrust Dynamic Strategy Hybrid Securities Investment Funds shares	1,564,158	Domestic shares
Huangshi Cooperative shares	1,404,000	Domestic shares

Notes:

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

(2) Except for the shareholding investment rights of Beicheng Cooperative, Huangshi Cooperative and Baiyun Cooperative in the Company belonging to Guangzhou Rural Credit Cooperative Union, the Company was not aware of any connection among other shareholders, or whether they were persons acting in concert as provided in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".

II. INFORMATION ON SHAREHOLDERS *(Continued)*

7. The top ten shareholders holding shares with selling restrictions of the Company as at the end of the Reporting Period

			Listing and trading of shares with selling restrictions		
No.	Name of holders of shares with selling restrictions	Number of shares with selling restrictions held (share)	Listing and trading date	Number of additional tradable shares (share)	Undertakings
1	GPHL	342,201,509	24 April 2009	342,201,509	Note (1)
2	Beicheng Cooperative	36,834,200	24 April 2009	36,834,200	Note (2)
3	Baiyun Cooperative	1,357,800	24 April 2009	1,357,800	Note (2)
4	Huangshi Cooperative	7,120,000	24 April 2009	7,120,000	Note (2)

Notes:

(1) The shares with selling restrictions held by GPHL shall not be listed, traded, nor transferred within 12 months from the date of implementation of the reform plan. Upon the expiry of such 12-month period, GPHL will not dispose of its shares (which are originally shares subject to selling restrictions) which exceeds 5% and 10% of the total number of the issued shares of the Company at The Shanghai Stock Exchange in the following 12 months and 24 months respectively.

(2) The shares of the Company held by institutions including Beicheng Cooperative, Baiyun Cooperative and Huangshi Cooperative were originally shares with selling restrictions held by GPHL. The listing and trading dates of those are in accordance with that of GPHL.

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

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

III. PUBLIC FLOAT

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

IV. PRE-EMPTIVE RIGHTS

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

Directors, Supervisors, Senior Management and Staff

I PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Executive Directors

Mr. Yang Rongming, aged 55, Chairman of the Company, is a postgraduate and currently the Chairman and General Manager of GPHL. Mr. Yang started his career in October 1970 and served as vice factory manager of Guangzhou Monosodium Glutmate and Food Factory, Deputy General Manager of Guangzhou Ao Sang Monosodium Glutmate & Food Co., Ltd, Director and General Manager of Guangzhou Eagle Coin Enterprises Group Corporation, Chairman and General Manager of Guangzhou Zhujiang Brewery Group Co., Ltd, Chairman of Guangzhou Zhujiang Brewery Co., Ltd. and Director of GP Corp.. Mr. Yang has served as Director of the Company since 1 November 2004. He is also Director of Guangzhou Xing Qun Pharmaceutical Co., Ltd. ("Xing Qun") and Guangzhou Zhong Yi Pharmaceutical Co., Ltd. ("Zhong Yi"), Director of Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd., Director of Guangzhou Pharmaceutical Soccer Club Co., Ltd. ("GPSC") and Director of Polian Development Co., Ltd ("Polian Company"). Mr. Yang has extensive experience in business management and sales and marketing.

Mr. Shi Shaobin, aged 41, Director and General Manager of the Company, is a Master's degree postgraduate and senior engineer. Mr. Shi started his career in 1989 and served as Technician of a research institute, staffer of the marketing and promotion department, Head of the administrative department, Assistant to the General Manager and Manager of the marketing department, and Deputy General Manager of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ("Jing Xiu Tang"), Chairman and General Manager of Wang Lao Ji, Chairman of Guangzhou Han Fang, Chief Executive of Wang Lao Ji and Staff Representative Supervisor of GPHL. Mr. Shi has served as the General Manager of the Company since June 2006 and Director of the Company since 2 April 2007. Mr. Shi is also Chairman of Wang Lao Ji, General Secretary and Factory Manager of Guangzhou Qi Xing Pharmaceutical Factory, Chairman and Secretary of the Party Committee of Guangzhou Qi Xing Pharmaceutical Co. Ltd. ("Qi Xing") and Vice Chairman of GP Corp., Director of GPHL, Director of Zhong Yi, Director of Guangzhou Bai Di, Director of GPSC and Director of Guangzhou Nuo Cheng Bio-Tech Co., Ltd. ("Nuo Cheng"). Mr. Shi has extensive experience in production, marketing and operation management.

Mr. Feng Zansheng, aged 59, Chief Pharmacist, has served as Director of the Company since 1997. Mr. Feng joined GPHL in 1970. Mr. Feng graduated from Guangzhou Medical College in 1977 with a Diploma in Medical Treatment. Mr. Feng was Chairman and General Manager of GP Corp.. He is Director and President of GP Corp., Vice Chairman of the Chinese Medical Commerce Association, an executive member of Guangdong Medical Society and Vice Commissioner of Trading Specialty. Mr. Feng has extensive experience in corporate management and pharmaceutical trading.

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

2. Independent Non-executive Directors

Mr. Wong Hin Wing, aged 46, has been an Independent Non-executive Director of the Company since 26 March 2004. Mr. Wong holds a Master degree in Executive Business Administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants, as well as a member of the American Institute of Certified Public Accountants. He is also a fellow member of the Institute of Chartered Secretaries and Administrators and a member of the Securities Institute in the United Kingdom. Mr. Wong is currently the Managing Director and Responsible Officer of Legend Capital Partners Inc., a licensed corporation under the Securities and Futures Ordinance. He has over 25 years of experience in accounting, finance, investment management and consultancy. Mr. Wong had worked with an international audit firm for four years and was the Chief Financial Officer of a listed public company for seven years. He is also an Independent Non-executive Director of Aeon Credit Service (Asia) Company Limited.

Mr. Liu Jinxiang, aged 68, has served as an Independent Non-executive Director of the Company since 15 June 2007. Mr. Liu graduated from Xi'an Construction Technology University in 1964. He was an Independent Non-executive Director of the Company from August 2000 to March 2004, Chairman of Yue Xiu Enterprises (Holdings) Limited and Guangzhou Investment Company Limited, Chairman of Yue Xiu Transportation Company Limited, Head of Guangzhou Economic Committee and Vice-Mayor of Guangzhou City. Mr. Liu has more than 40 years of experience in industrial technology, enterprise and economic affairs management.

Mr. Li Shanmin, aged 46, has served as an Independent Non-executive Director of the Company since 15 June 2007. Mr. Li graduated from Nanjing Agricultural University with a doctorate degree in management science in 1990. He had been an Independent Director of Guangzhou Zhujiang Industrial Co., Ltd. He is currently a Professor of the School of Management of Zhongshan University, the mentor of a Ph. D. student whose majors are in finance and investment, section chief for finance and state-owned asset section of Zhongshan University, and a member of International Financial Management Association. Mr. Li is also acting as an Independent Director of Hubei Yihua Chemical Industry Co., Ltd., and China Soft Package Co., Ltd., Director of Guangzhou Zhujiang Industrial Co., Ltd., directive expert of postdoctorate station of the Shenzhen Stock Exchange.

Mr. Zhang Yonghua, aged 50, has served as an Independent Non-executive Director since 15 June 2007. Mr. Zhang graduated from Huazhong Normal University with a bachelor degree in Law in 1982 and received a Master degree in Law in 1989. He is currently the Director of Education and Legal System Institute under the School of Law of Guangdong University of Foreign Studies. Mr. Zhang acted as Deputy Director of Publicity Department and Vice-Professor of School of Political Science & Law of Huazhong Normal University, Deputy Director of Minor Department of Guangzhou University of Foreign Studies and Deputy Director of Guangdong University of Foreign Studies. Mr. Zhang is concurrently Director of Guangdong Law Society, Consultation Expert of Legal System Office of Guangzhou Government and intercessor of Guangzhou Arbitration Commission.

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

3. Supervisors

Ms. Yang Xiuwei, aged 50, Assistant Engineer, has served as Chairman of the Supervisory Committee of the Company since 15 June 2007. Ms. Yang started her career in July 1974. She graduated as a part-time graduate student from the Party School of the Central Committee of the C.P.C majoring in economic management in July 2003. Ms. Yang has been the Clerk at Vice-Director Level for Complaint Letter and Visit Office, Inspector at Vice-Section Level, Inspector at Section Level and Deputy Director at Vice Department Level, Deputy Director at Department Level for the Bureau of Supervision under Guangzhou Municipal Commission for Inspecting Discipline. Ms. Yang is currently Secretary of the discipline committee of GPHL and Secretary of the Party Committee of the Company, Director of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ("Pan Gao Shou") and Director of Polian Company.

Mr. Wu Quan, aged 52, is an undergraduate and has served as Supervisor of the Company since 15 June 2007. Mr. Wu started his career in February 1976 and graduated from the Guangzhou Institute of Education majoring in Chinese in July 1988. Mr. Wu is currently Secretary of the Discipline Committee and Senior Manager of the Human Resources Department of the Company. Mr. Wu acted as Chief Officer of Cannon Camp, Vice Company Commander of Guangdong Independent Division, advisor at deputy company commander level, advisor at company commander level for military equipment section under the command of Guangdong Zhangjiang Military Sub-area, advisor at deputy battalion level, advisor at battalion level, deputy section chief and section chief for military equipment section under the command of Guangdong Military Area, Deputy Secretary of the Party Committee, Secretary of the Discipline Committee and Secretary of the Party Committee of Guangzhou Chinese Medicine Corporation.

Mr. Zhong Yugan, aged 53, has served as Supervisor of the Company since March 2004. Mr. Zhong graduated from the Business Economics Department of Beijing Business College in 1982 and was awarded a Bachelor of Arts in economics. He studied abroad in the University of 契里爾 • 麥托蒂 in the former Yugoslavia from 1985 to 1987. Mr. Zhong had consecutively been Head of Business Management Department, Head of Business Administration Faculty, Professor of management studies and tutor of Master degree postgraduates in the Guangdong Business College from 1997 to June 2008. He is currently a Professor in School of Business of Guangdong University of Foreign Studies. Mr. Zhong is also Vice Chairman of the Association of Marketing Research of China Higher Institutes, committee member of academic work of the Association of China International Public Relations and Vice Chairman of Guangdong Marketing Association. Mr. Zhong has extensive experience in the fields of marketing and sales, strategic decision-making and corporate management.

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

4. Senior Management

Mr. Su Guangfeng, aged 44, an engineer with a Bachelor degree in Industrial Studies, has served as Deputy General Manager of the Company since June 2005. Mr. Su joined Guangzhou Baiyunshan Pharmaceutical Co., Ltd ("Baiyunshan Co., Ltd") in 1987 and served as the Deputy Chief of the Operation Department of Baiyunshan Co., Ltd, and Deputy Plant Head of Guangzhou Baiyunshan Chinese Medicine Factory, Manager of Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited ("Ying Bang Company"), Chairman of Xing Qun and Chairman of Pan Gao Shao. Mr. Su is currently General Manager of Xing Qun. Mr. Su has extensive experience in enterprise management, sales and marketing.

Mr. Chen Binghua, aged 43, an accountant with a Master degree in Business Administration, is the Financial Controller and Senior Manager of the Finance Department of the Company. Mr. Chen was General Manager of Shanghai Pudong Xidi Co., Ltd, General Finance Manager of China Foreign Trade Development Company and Financial Chief of O-NET Communications Ltd. He is also a Director of Guangzhou Bai Di, Guangxi Ying Kang Pharmaceutical Co., Ltd. ("Ying Kang"), Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd ("Cai Zhi Lin") and Nuo Cheng and Supervisor of GP Corp.. He has been the Senior Manager of the Finance Department of the Company since 2002 and the Financial Controller of the Company since December 2005. Mr. Chen has extensive experience in accounting and financial management.

Mr. Pang Jianhui, aged 36, Secretary of the Board of the Company, a senior engineer with a Bachelor of Science degree in Pharmaceutical Science. Mr. Pang joined GPHL in 1996, and served as the Business Head of Investment Department of GPHL, Officer of its export and import subsidiary, Business Manager and Department Manager of the Business Department of its Hong Kong subsidiary and Deputy Director of its Investment Department. Mr. Pang is also Director of Wang Lao Ji, Pang Gao Shao and Guangzhou Han Fang. Mr. Pang is also a member of Management Committee of Guangzhou Pharmaceutical Import & Export Corporation ("Pharmaceutical Import & Export Corporation"). Mr. Pang has been the Secretary of the Board of the Company since July 2008. He has extensive experience in pharmaceutical manufacturing and management.

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

Name	Position	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Reason for change
Yang Rongming	Chairman	Nil	Nil	–
Shi Shaobin	Executive Director, General Manager	Nil	Nil	–
Feng Zansheng	Executive Director	Nil	Nil	–
Wong Hin Wing	Independent Non-executive Director	Nil	Nil	–
Liu Jinxiang	Independent Non-executive Director	Nil	Nil	–
Li Shanmin	Independent Non-executive Director	Nil	Nil	–
Zhang Yonghua	Independent Non-executive Director	Nil	Nil	–
Yang Xiuwei	Chairman of the Supervisory Committee	Nil	Nil	–
Wu Quan	Supervisor	Nil	Nil	–
Zhong Yugan	Supervisor	Nil	Nil	–
Su Guangfeng	Deputy General Manager	Nil	Nil	–
Chen Binhua	Financial controller	6,240	6,240	–
Pang Jianhui	Secretary to the Board (appointed on 30 July 2008)	Nil	Nil	–
He Shuhua	Deputy General Manager, Secretary to the Board (resigned on 30 June 2008 and 30 July 2008)	36,010	36,010	–

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

1. As at 31 December 2008, the interests or short positions of the Directors, Supervisors and Senior Management in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on HKEx (the "Listing Rules") to be notified to the Company and the HKEx were as follows:

Director

Name	Type of interest	Company	Number of shares
Shi Shaobin	Personal	Jing Xiu Tang	25,000
		Wang Lao Ji	26,180
	Family	Jing Xiu Tang	11,000

Senior Management

Name	Types of interest	Company	Number of shares
Chen Binghua	Personal	A shares of the Company	6,240

2. Save as disclosed above, as at 31 December 2008, none of the Directors, Supervisors, Senior Management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

IV. EMOLUMENTS FOR THE YEAR

1. Policy on determining emoluments

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

2. Emoluments for the Year

During the Year, the total emoluments of the Directors, Supervisors and Senior Management of the Company who received emoluments from the Group amounted to RMB2,434,000, details of which are set out as follows:

	Emoluments received from the Group		
Name	**Whether emoluments were received from the Group**	**Total emoluments for the Year** (RMB'000)	**Whether emoluments were received from the Company's shareholder or connected parties**
Directors			
Yang Rongming	No	–	Yes
Shi Shaobin	Yes	479	No
Feng Zansheng	No	–	Yes
Wong Hin Wing	Yes	80	No
Liu Jinxiang	Yes	80	No
Li Shanmin	Yes	80	No
Zhang Yonghua	Yes	80	No
Supervisors			
Yang Xiuwei	No	–	Yes
Wu Quan	Yes	319	No
Zhong Yugan	Yes	30	No
Senior Management			
Su Guangfeng	Yes	425	No
Chen Binghua	Yes	390	No
Pang Jianhui	Yes	167	No
He Shuhua	Yes	304	No
Total		2,434	

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year *(Continued)*

Notes:

(1) The emoluments of Mr. Shi Shaobin for the Year were the emoluments he received from the Company since 1 April 2008.

(2) During the Year, Mr. Feng Zansheng received emoluments from the Company's joint venture.

(3) The emoluments of Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wu Quan, Mr. Zhong Yugan and Mr. Chen Binghua were the emoluments they received from the Company for the Year.

(4) The emoluments of Mr. Su Guangfeng for the Year were the emoluments he received from the Company and a subsidiary of the Company.

(5) Mr. Pang Jianhui was appointed on 30 July 2008, the emoluments of whom for the Year were the emoluments he received from the Company for the period from 1 August 2008 to the end of the Year.

(6) The emoluments of Mr. He Shuhua for the Year were the emoluments he received from the Company for the period from 1 January 2008 to the date of his cessation from his position.

V. APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. The resignation of Mr. He Shuhua as the Deputy General Manager of the Company was approved by written resolution at the seventh meeting of the Fourth Session of the Board of the Company held on 30 June 2008.

2. The resignation of Mr. He Shuhua as the Secretary of the Board of the Company was approved by written resolution at the eighth meeting of the Fourth Session of the Board of the Company held on 30 July 2008. Mr. Pang Jianhui was appointed as the Secretary of the Board of the Company, with a term of office commencing from the date of his appointment until the date of election of the Fifth Session of the Board of the Company.

VI. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the present Directors and Supervisors has entered into a service contract with the Company. The contract term commenced from 15 June 2007 up to the date of election of new members of the Fifth Session of the Board or the Supervisory Committee.

The term of office of each Director and Supervisor of the Company commenced from the date of their respective appointment to the date of election of new sessions of the Board and the Supervisory Committee. The term of each session of the Board or the Supervisory Committee shall be approximately three years. All Directors and Supervisors are eligible to offer themselves for re-election.

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

VII. INTERESTS IN CONTRACTS OF DIRECTORS AND SUPERVISORS

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

VIII. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted Appendix 10 of the Listing Rules titled "Model Code for Securities Transactions by Directors of Listed Issuers" and "Measures for the Administration of Trading Shares of the Company by Directors, Supervisors and Senior Management" as stipulated by the Company as the code and critieria for securities transactions by Directors and Supervisors of the Company. After making specific inquiry of all the Directors and Supervisors, the Company confirmed that its Directors and Supervisors had fully complied with the standards relating to Directors' and Supervisors' dealing in securities as set out in the above code and criteria during the Reporting Period.

IX. EMPLOYEES OF THE GROUP

As at 31 December 2008, the number of employees on the payroll register of the Group was 8,022.

Including:

Production and supporting staff	2,949
Sales personnel	2,032
Technical, research and engineering staff	1,552
Finance and statistics staff	308
Other administrative staff	1,181

128 of the employees were holders of master degree and 1,723 were holders of bachelor degree. The number of retirees was 5,624. The total salary payment for the Year was approximately RMB469 million.

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

Corporate Governance

I. CORPORATE GOVERNANCE

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

As at the end of the Reporting Period, the corporate governance of the Company was in compliance with the requirements regarding normal operation of listed companies, and there were no material discrepancies from the requirements stipulated in the relevant documents issued by CSRC.

1. Shareholders and General Meetings of Shareholders

The Company is endeavored to ensuring equality among all shareholders, especially the minority shareholders so that they can fully exercise their rights and undertake their obligations accordingly, and to ensure that the shareholders will be informed and are able to participate in the important matters of the Company specified in laws, administrative regulations and the Articles of Association, establishing an effective channel for the Company to communicate with the shareholders.

The general meeting of shareholders is the highest authority of the Company and it exercises its power in accordance with the laws. It decides the important matters of the Company. The annual general meeting of shareholders or the extraordinary general meetings of shareholders provide a channel for the management to communicate directly with the shareholders. The general meeting of shareholders is convened and held in strict compliance with the Rules for Shareholders' General Meetings of Listed Companies issued by CSRC and Rules and Procedures for Shareholders' General Meetings of the Company. The Company complies strictly with the relevant requirements in respect of voting matters and voting procedures so as to safeguard the legal interests of the Company and its shareholders. The accountant and the lawyer present at the meeting as witnesses. The Company encourages all shareholders to attend the meetings and welcome shareholders to express their opinions at the meetings.

2. Relationship between the Controlling Shareholder and the Company

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

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of Directors

(1) Composition

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

The present Board is the fourth session since the establishment of the Company. It consists of seven members, of which there are three Executive Directors and four Independent Non-executive Directors. Each Director has a term of office commencing from 15 June 2007 to the date of election of a new session of the Board.

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

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

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

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

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of Directors *(Continued)*

(2) Board Meetings

During the Year, eight Board meetings were convened, at which the investment projects, connected transactions and financial matters of the Group were discussed. Effective discussions and prudent decisions were made at such meetings.

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

Directors	**Required meeting attendance** (frequencies)	**Meetings attended in person** (frequencies)	**Meetings attended by proxy** (frequencies)	**Absence** (frequencies)	**Remarks**
Yang Rongming	8	8	/	/	–
Shi Shaobin	8	8	/	/	–
Feng Zansheng	8	7	1	/	Appointed Mr. Shi Shaobin to attend and vote on his behalf
Wong Hin Wing	8	8	/	/	–
Liu Jinxiang	8	8	/	/	–
Li Shanmin	8	8	/	/	–
Zhang Yonghua	8	8	/	/	–

(3) Independent Non-executive Directors

Currently, the Company has 4 Independent Non-executive Directors, representing more than 1/2 of the total members of the Board. All the Independent Non-executive Directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the Independent Non-executive Directors attended Board meetings and general meetings of shareholders in a careful, responsible and active manner. They had done a lot of work on improving the Company's corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the shareholders. All of the 4 Independent Non-executive Directors of the Company were members of the special committees formed under the Board.

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of Directors *(Continued)*

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

During the Reporting Period, the Independent Non-executive Directors of the Company expressed no dissenting views to the Board resolutions and other matters other than the Board resolutions.

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

Pursuant to the "Notice on How to Successfully Prepare the 2008 Annual Report by Listed Companies" issued by CSRC on 26 December 2008, the Independent Non-executive Directors studied the relevant requirements set out in the Notice seriously. The Company's management reported to the Non-executive Independent Directors on production and operation issues and the progress of major events, and submitted a framework for the preparation of 2008 Annual Report, arranged auditing work and relevant information. After the issuance of audit recommendations by the domestic and international auditors of the Company, the Independent Non-executive Directors communicated with the auditors regarding problems related to the auditing process.

(4) Loan or guarantee for loans granted to the Directors

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, Supervisors and Senior Management of the Company, the Company's controlling shareholder or their respective connected persons.

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board

(1) Audit Committee

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

The Audit Committee now comprises Mr. Wong Hin Wing (Head of the Committee), Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua. All of them are Independent Non-executive Directors of the Company and are qualified under relevant requirements. The term of office of the members of the Audit Committee commences from 15 June 2007 to the date of election of the new session of the Board. During the year, the Audit Committee held two meetings, which were chaired by Mr. Wong Hin Wing. All of the committee members attended each of such meetings.

(2) Strategic Development and Investment Committee

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

The Committee now comprises Mr. Yang Rongming (Head of the Committee), Mr. Shi Shaobin and Mr. Feng Zansheng, as well as the Independent Non-executive Directors Mr. Liu Jinxiang and Mr. Li Shanmin. The term of office of the aforementioned committee members commenced from 15 June 2007 to the date of election of the new session of the Board. During the Reporting Period, the Committee held two meetings, at which the investment projects and investment proposals were considered. All of the committee members attended each such meeting.

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration Committee, which was renamed as Nomination and Remuneration Committee as approved at the Fourth Board Meeting of the Fourth Session of the Board. Its principal responsibilities are to research on the standards of performance assessment of Directors and Senior Management, to conduct the assessment and to issue recommendations, to study and examine the remuneration policies and proposals of Directors and Senior Management, to research on the selection standards and procedures of Directors, General Managers and other Senior Management and to issue recommendations, and to extensively look for qualified persons to be Directors and Senior Management, to conduct examination on them and to issue recommendations.

The Committee now comprises of Mr. Yang Rongming and Mr. Shi Shaobin, Executive Directors, and the Independent Non-executive Directors, Mr. Wong Hin Wing, Mr. Li Shanmin (Head of the Committee) and Mr. Zhang Yonghua. The term of office of the aforementioned committee members commenced from 15 June 2007 to the date of election of the new session of the Board. During the Reporting Period, the Committee held one meeting, at which the Company's remuneration proposals of Directors, Supervisors and Senior Management for 2007 were considered. All of the committee members attended such meeting.

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the Fourth Board Meeting of the Fourth Session of the Board. Its principal responsibilities are to provide guidance on the formulation of annual budgeting plans and business objectives of the Company and to supervise and inspect the respective implementation.

The Budget Committee now comprises Mr. Yang Rongming and Mr. Shi Shaobin, Executive Directors, and Independent Non-executive Directors, Mr. Wong Hin Wing, Mr. Liu Jinxiang (Head of the Committee) and Mr. Li Shanmin. The term of office of the aforementioned committee members commences from the date of their respective appointments to the date of election of the new session of the Board.

I. CORPORATE GOVERNANCE *(Continued)*

5. The Supervisory Committee

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

6. Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society so as to mutually promote the sustainable and sound development of the Company.

7. Information disclosure and management of relationship with investors

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

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

1. **Separation of business:** The Company operates with an extensive business scope that is independent from its controlling shareholder.

2. **Human resources:** The Company maintains independence in areas of staffing, personnel and payroll management. The General Manager, Deputy General Manager, Financial Controller, Secretary to the Board, and other senior executives of the Company are remunerated by the Group.

3. **Assets:** The Group is equipped with an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. There are currently 36 trademarks used by the Group, the titles of which are vested with GPHL, the controlling shareholder of the Company. The Company has entered into the Trademark Licensing Agreement and Supplemental Trademark Licensing Agreement with GPHL in relation to the use of trademarks at a consideration. In addition, the Company owns 4 registered trademarks, the registrations of which are still valid.

4. **Organization:** The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments are operating independently and autonomously. Further, they possess independent decision-making mechanisms and complete production units. There does not exist any supervisory or reporting relationships with the functional departments of the controlling shareholder of the Company.

5. **Finance:** The Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

III. INTERNAL CONTROLS

1. Establishment and improvement of internal control system

The Company has established a series of management regulations based on the articles of association, including the Regulations for General Meetings, Regulations for Board Meetings, System for Independent Directors, Regulations for Supervisory Meetings, System for Independent Directors, Guidelines for General Managers, Implementation Guidelines for Special Committees under the Board and Administration Methods for Trading in Shares of the Company for Directors, Supervisors and Senior Management, which has clarified the duties and rights of the Decision Makers, Management, Supervisors and related authorities of the Company, regulated business operations and improved the efficiency of decision making.

During and after the Reporting Period, the related works of corporate governance and internal control commenced by the Company included:

(1) To strengthen internal control, the Company has formulated the Guidelines for Internal Control in 2007 and the audit department of the Company has monitored the internal control, financial balance, material purchase and etc in 2008. The Company has also guided its subordinated enterprises to monitor the management system and further regulate the internal control process and amend the internal control system.

(2) In 2008, the Company has perform further self-inspection in accordance with Notice on Specified Activities of Corporate Governance (notice of CSRC [2008] No.27) of the CSRC and disclosed the Report on the Reform of Corporate Governance on 31 July 2008.

Meanwhile, pursuant to the Notice on the Prevention of Capital Occupation by the Listed Companies [2008] No.92 of the Guangdong Securities Regulatory Bureau of CSRC, the Company performed self-inspection on whether there was illegal occupation of capital and whether the related system was sound and formulated and disclosed the Self-inspection Report on Capital Occupation of the Controlling Shareholders and their Connected Parties on 11 August 2008.

(3) To strengthen the effective monitoring of the capital movement and prevent capital occupation by the substantial shareholders, the Company has formulated the Administration on Preventing Capital Occupation by the Controlling Shareholder and their Connected Parties and was implemented after being examined and passed by the Board of the Company.

III. INTERNAL CONTROLS *(Continued)*

2. Self-assessment Report on the Internal Control of the Company and the Opinions of the Auditing Authority

   Pursuant to the Report on the Fulfillment of Social Obligations by the Listed Companies in 2008 and Notice on the Disclosure of the Self-assessment Report of Internal Control of the Shanghai Stock Exchange, the Board of the Company has performed a self-assessment on the internal control of 2008 and formulated the Self-assessment Report on Internal Control (full version is available on the website of the Shanghai Stock Exchange). Through self-assessment, as at the end of the Reporting Period, no major shortcoming in the design of internal control or execution was found in the Company.

   The Company did not employ any accounting firm to perform audited assessment for the internal control of the Company for the Year.

3. Pursuant to the Report on the Fulfillment of Social Obligations by the Listed Companies in 2008 and Notice on the Disclosure of the Self-assessment Report of Internal Control of the Shanghai Stock Exchange, the Company has formulated the Social Obligation Report for 2008 (full version is available on the website of the Shanghai Stock Exchange).

Summary of Shareholders' Meetings

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

Session and number of meeting	Date of meeting	Newspaper for publication of the resolutions	Disclosure date
2007 Annual General Meeting	29 May 2008	Shanghai Securities News	30 May 2008

Report of the Board of Directors

(Unless otherwise stated, the financial data contained in this report is extracted from the Group's accounts prepared in accordance with the PRC Accounting Standards)

MANAGEMENT DISCUSSION AND ANALYSIS

I. Principal Business Scope and Analysis of Operations

1. Business scope

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

(1) Operations review

Since 2008, the macro economy in China has faced with the most serious challenges in recent years. The fluctuation in price of energy, raw materials and other commodities, the more stringent new enterprise environment protection requirements, the increase in labour cost following the implementation of the new Labour Contract Law, tightening of State monetary policy, the unpredicted snow disaster, earthquake and other natural disasters, increasing market competition, further spread of the international financial crisis and the diminishing total social demand so caused have certain impact on the operating results of the Company.

The Company has always emphasised on risk control, and strived for the improvement of operation quality. The Group concentrated on marketing and distribution based on the market changes in 2008, the marketing and distribution strategies and models have been adjusted, with distribution channels streamlined, inventory turnover accelerated, and at the same time fundamental management has been enhanced to ensure its smooth operations.

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB3,450,586,000 for the Reporting Period, down 70.94% as compared with the previous year. The profit before tax amounted to RMB202,179,000, representing a decrease of 56.53% over the previous year and net profit amounted to RMB182,496,000, representing a decrease of 45.54% over the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

According to HKFRS, the Group recorded turnover of RMB3,450,586,000 for the Reporting Period, down 70.94% as compared with the previous year. Profit before income tax amounted to RMB208,552,000, representing a decrease of 53.63% over the previous year and profit attributable to equity holders of the Company amounted to RMB181,829,000, representing a decrease of 43.24% over the previous year.

Compared with 2007, the operating results of the Group dropped significantly mainly due to: (1) after the GP Corp. joint venture project under the Company was completed at the beginning of 2008, the proportion of its equity interest held by the Company declined to 50%. Pursuant to Accounting Standard for Business Enterprises Interpretation No. 2 issued by the Ministry of Finance on August 2008, GP Corp. was no longer included in the scope of consolidation of the Group, and was computed in the equity accounting method, thus resulted in significant impact on the principal business income and profit of the Group. GP Corp. achieved a sales revenue of RMB9,854,290,000 and profit before tax of RMB125,675,000 for 2008; (2) during 2008, energy cost and raw material prices continued to fluctuate due to domestic inflation, resulting in further increase in production and sales costs of the Company, with a lower manufacturing product profit margin compared with the previous year; (3) the Group has adjusted the original marketing and distribution strategies and models based on the market changes since the second quarter of 2008, which have certain impact on product sales of the Company. It is expected that such adjustments will take time to complete; and (4) the spread of the financial crisis since the second half of 2008 caused further deterioration in the economic environment in China and around the world, thus resulted in a significant fall in total social demand. Such fall in total social demand and increasing competition in the domestic medicine market have certain impact on product sales of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

A breakdown of the operating results of the overall and principal operations of the Group for 2008 is set out as follows:

Prepared in accordance with the PRC Accounting Standards

Item	**2008 (RMB'000)**	2007 (RMB'000) (Restated)	Growth/ (Decrease) *(YoY)* *(%)*
Income from principal operations	**3,450,586**	11,873,514	(70.94)
Of which: Manufacturing	**1,835,223**	2,371,678	(22.62)
Trading	**1,615,363**	9,501,836	(83.00)
Operating profit	**176,043**	454,413	(61.26)
Of which: Manufacturing	**171,231**	345,876	(50.49)
Trading	**4,812**	108,537	(95.57)
Total profit	**202,179**	465,114	(56.53)
Of which: Manufacturing	**187,191**	351,393	(46.73)
Trading	**14,988**	113,721	(86.82)
Net profit	**182,496**	335,094	(45.54)
Of which: Manufacturing	**165,000**	267,537	(38.33)
Trading	**17,496**	67,557	(74.10)
Prepared in accordance with HKFRS			
Turnover	**3,450,586**	11,873,514	(70.94)
Of which: Manufacturing	**1,835,223**	2,371,678	(22.62)
Trading	**1,615,363**	9,501,836	(83.00)
Profit before income tax	**208,552**	449,710	(53.63)
Of which: Manufacturing	**191,689**	335,160	(42.81)
Trading	**16,863**	114,550	(85.28)
Profit attributable to equity holders of the Company	**181,829**	320,343	(43.24)
Of which: Manufacturing	**163,079**	262,352	(37.84)
Trading	**18,750**	57,991	(67.67)

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

Analysis of the Group's principal activities for the year 2008 is set out as follows:

Principal Operations	Income from principal operations: Income from principal operations (RMB'000)	Income from principal operations: Increase/decrease over last year *(%)*	Cost of principal operations: Cost of principal operations (RMB'000)	Cost of principal operations: Increase/decrease over last year *(%)*	Profit margin of principal operations: Profit margin of principal operations (%)	Profit margin of principal operations: Increase/decrease over last year *(Percentage point)*
Prepared in accordance with the PRC Accounting Standards						
Manufacturing	1,835,223	(22.62)	972,821	(15.26)	46.13	(4.50)
Trading	1,615,363	(83.00)	1,473,800	(83.51)	8.70	2.85
Among which:						
Wholesale	1,349,033	(84.92)	1,250,967	(85.23)	7.22	1.97
Retail	136,560	(61.34)	102,602	(63.06)	24.63	3.57
Import & export	129,770	(35.12)	120,231	(36.11)	7.29	1.50
Prepared in accordance with the HKFRS						
Manufacturing	1,835,223	(22.62)	972,821	(15.26)	46.99	(4.61)
Trading	1,615,363	(83.00)	1,473,800	(83.51)	8.76	2.83
Among which:						
Wholesale	1,349,033	(84.92)	1,250,967	(85.23)	7.27	1.95
Retail	136,560	(61.34)	102,602	(63.06)	24.87	3.50
Import & export	129,770	(35.12)	120,231	(36.11)	7.35	1.43

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

Geographical analysis of sales arising from the manufacturing operations and trading operations of the Group for 2008 is set out as follows:

Region	Manufacturing			Trading			Total		
	Income from manufacturing operations (RMB'000)	Increase/ decrease over last year (%)	Percentage in manufacturing operations (%)	Income from trading operations (RMB'000)	Increase/ decrease over last year (%)	Percentage in trading operations (%)	Income from principal operations (RMB'000)	Increase/ decrease over last year (%)	Percentage in principal operations (%)
Southern China	1,131,747	(24.48)	61.67	1,457,784	(82.40)	90.24	2,589,531	(73.53)	75.04
Eastern China	248,624	(33.77)	13.55	60,544	(84.94)	3.76	309,168	(60.52)	8.96
Northern China	212,265	28.63	11.57	1,526	(99.06)	0.09	213,791	(34.75)	6.20
North-Eastern China	79,864	(36.28)	4.35	–	–	–	79,864	(65.07)	2.31
South-Western China	106,834	(5.75)	5.82	5	(100.00)	–	106,839	(76.03)	3.10
North-Western China	55,712	(22.23)	3.03	212	(99.80)	0.01	55,924	(69.02)	1.62
Exports	177	(98.93)	0.01	95,292	(11.89)	5.90	95,469	(23.40)	2.77
Total	1,835,223	(22.62)	100.00	1,615,363	(83.00)	100.00	3,450,586	(70.94)	100.00

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(2) Manufacturing operations of Chinese Patent Medicine

During the Reporting Period, the revenue from principal operations of the Group's manufacturing operations was RMB1,835,223,000, a decrease of 22.62% compared with last year. Sales of some key products have not reached the expected target and have shown different extents of decrease.The Group adjusted operation strategies and distribution strategies based on the market changes, and took various measures to cope with market changes: Firstly, it enhanced the management of dealers, streamlined the original sales channels, broadened distribution channels; took various measures to maintain and control market prices of products, and at the same time, it enhanced development of main stream chain medicine stores and the third terminal, and expanded end retail sales network. In November 2008, some manufacturing enterprises under the Group entered into strategic cooperation agreements with some A-grade hospitals in Guangzhou City, thus significantly enhanced the influence of of the Group's products in the hospital market. Secondly, it encouraged distribution innovation with great efforts, strived for expansion of market sales, and promoted market development of products of the Company through the improvement of the evaluation indicator system for market innovation of subsidiary enterprises, the active implementation of brand strategies, the assistance in enrolment in distribution clubs, and the opening of special sales counters, among others. Thirdly, it continued the enhancement of development effort of major markets in other provinces, consolidated market share, developed markets thoroughly, and enhanced brand awareness and reputation.

During the Reporting Period, the Group persisted in carrying out science and technology innovation, enhanced investment in scientific research, accelerated the work in technological R&D and developed new points for business growth. Guangzhou Baidi, a subsidiary of the Company, was granted production approval for Rabies Bacterin, and its production workshop has passed the national GMP accreditation. "One Chinese medicine for the treatment of hyperplasia of mammary glands and its preparation method" and "One Chinese medicine for the treatment of internal hemorrhage and its preparation method" of Zhong Yi, and "Hua Tuo Zai Zao Wan for the preparation of medicine to prevent heart disease of blood deficiency" of Qi Xing were all awarded State invention patents. Qi Xing and Zhong Yi were chosen as the first batch of pilot enterprises for the promotion of intellectual property works in leading import and export enterprises in Guangzhou City, and Zhong Yi was also chosen as an intellectual property pilot enterprise of Guangdong Province. One of the first batch intellectual property strategic pilot enterprises, its Xiao Ke Wan invention patent was awarded the model project for implementation of patent technology in Guangdong Province in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(2) Manufacturing operations of Chinese Patent Medicine *(Continued)*

During the Reporting Period, the Group was actively engaged in the promotion of certification of new and high technology enterprises. At present, Zhong Yi, Guangzhou Chen Li Ji Pharmaceutical Factory ("Chen Li Ji"), Xing Qun, Jing Xiu Tang, Qi Xing, Pan Gao Shou and Wang Lao Ji, a total of seven enterprises applied for the certification of new and high technology enterprises in Guangdong Province and were granted the certificate of new and high technology enterprises.

In response to the appeals for a green economy and that the central government is constructing an environmental-friendly and conservation-minded society, which have a main content of construction of an ecological civilization, during the Reporting Period, the Group focused on environmental protection works, actively implemented the "Cleaner Production Law of the People's Republic of China" and "Energy Conservation Law of the People's Republic of China", enhanced the efficiency of resources and energy, lowered production costs and reduced pollution, achieved emission standard of noise, smoke and sewage (the "three pollutants") and controlled the total emission of pollutants within the standard set by the Guangzhou Environmental Protection Management Bureau and performed the social obligations in protecting the environment so as to achieve sustainable development.

An analysis of sales of major products for the Manufacturing Operations in 2008 is as follows:

Types of product	Income from principal operations: Income from principal operations (RMB'000)	Income from principal operations: Increase/ decrease over last year *(%)*	Cost of principal operations: Cost of principal operations (RMB'000)	Cost of principal operations: Increase/ decrease over last year *(%)*	Profit margin of principal operations: Profit margin of principal operations *(%)*	Profit margin of principal operations: Increase/ decrease over last year *(Percentage point)*
Heat clearing and anti-toxic medicine	241,196	(34.07)	137,336	(29.56)	45.74	(3.54)
Diabetes medicine	433,763	(17.66)	153,941	(14.06)	65.03	(1.39)
Cough and phlegm clearing medicine	247,793	(24.17)	120,136	(17.46)	54.49	(3.84)
Arthritis medicine	191,161	(36.99)	91,490	(31.06)	55.29	(4.01)
Gastric medicine	50,046	(31.12)	24,950	(22.09)	54.95	(5.67)
Other products	671,264	(13.52)	444,968	(4.02)	39.31	(6.46)

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(3) Pharmaceutical trading operations (including wholesale, retail, import and export)

During the Reporting Period, as to the trading operations, firstly we steadily promoted our joint venture operation and restructuring, and enhanced our core enterprise competitiveness. With the success made by the joint venture, GP Corp. developed actively, overcame the influence of snow disaster, earthquake, storms, among others, and maintained steady growth in sales. Guangzhou Chinese Medicine Corporation was restructured as a company with limited liabilities, and was renamed "Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.". Such opportunity enabled Cai Zhi Lin to combine its brand resources, enhance brand value, and expand the social influence of "Cai Zhi Lin". Secondly, we strived to develop neighbouring markets of the Province, smoothened sales channels, and ensured the reasonable and sustainable development of product structure in markets of other provinces. Since the beginning of this year, Cai Zhi Lin has successfully developed shopping mall supermarket networks like Watson's (nationwide) and Manning (nationwide), among others, with significant achievements in network development. Thirdly, we implemented the strategy of brand cultivation, promoted brand management expertise, provided quality brand management services, maintained diversity and variety of products. Fourthly, we captured development opportunities to deepen the work of hospital bidding in Guangdong Province, performed well in the despatch work of community medicine, and continued to develop hospital sales business.

As at 31 December 2008, the Group had 96 retail chain pharmacy outlets, including 66 "Cai Zhi Lin" which specialized in traditional Chinese medicines, 27 "Jian Min" which specialized in chemical medicines, one pharmacy named Ying Bang and two other retail chain pharmacy outlets.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

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

Name of enterprise	Equity directly held by the Company *(%)*	Sales revenue *(RMB'000)*	Total profit *(RMB'000)*	Net profit *(RMB'000)*
(1) Subsidiaries				
Xing Qun	88.99	189,037	(67,495)	(59,126)
Zhong Yi	100.00	562,426	40,220	29,229
Chen Li Ji	100.00	196,584	25,885	19,316
Qi Xing	75.00	227,725	(19,416)	(19,485)
Jing Xiu Tang	88.40	188,115	17,564	13,481
Pan Gao Shou	87.77	248,527	11,999	6,683
Guangzhou Huan Ye Medicine Co., Ltd. ("Guangzhou Huan Ye")	100.00	50,077	34	34
Ying Kang	51.00	28,105	(1,136)	(1,136)
Guangzhou Bai Di	97.26	961	(22,607)	(22,607)
Guangzhou Han Fang	96.93	20,021	(14,532)	(14,532)
Cai Zhi Lin	100.00	1,399,224	10,038	13,457
Pharmaceutical Import & Export Corporation	100.00	296,126	2,617	1,867
(2) Branches				
Ying Bang Company	—	511,477	4,055	4,055
(3) Joint ventures				
Wang Lao Ji *(Note i)*	48.05	1,289,363	197,391	172,584
GP Corp. *(Note ii)*	50.00	9,854,290	125,675	87,929

Notes:

(i) The result of Wang Lao Ji was stated in full amount in the above table. In 2008, Wang Lao Ji continued with a good growth momentum, achieved a sales revenue of RMB1,289,363,000, representing an increase of 32.03% compared with the previous year; total profit amounted to RMB197,391,000, representing an increase of 57.53% compared with the previous year; net profit was RMB172,584,000, representing an increase of 56.13% compared with the previous year. During the Reporting Period, Wang Lao Ji Qing Liang Cha, Xiao Er Qi Xing Cha, Bao Ji Kou Fu Ye and Wang Lao Ji Run Hou Tang enjoyed significant increases of 45.02%, 28.62%, 28.66% and 71.20% respectively compared with the previous year.

(ii) The result of GP Corp. was stated in full amount in the above table.

During the Reporting Period, the Company did not engage in any other operation business which has a material impact on the net profit.

None of the Company's invested companies contributed to the Group any investment income which equals to 10% or more of the Group's net profit.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

4. Major customers and suppliers

During the Year, purchases of goods and services from the five largest suppliers amounted to RMB343,309,000, representing approximately 16.41% of the total purchases. The purchases from the largest supplier amounted to RMB73,829,000, representing 3.53% of the total purchases. Goods and services sold to the 5 largest customers amounted to RMB243,551,000, representing 7.06% of the total sales. Sales to the largest customer amounted to RMB79,039,000, representing 2.29% of the total sales of the Group.

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

II. Changes of accounting policies and accounting estimates of the Group after carrying out new accounting standards for enterprises

Pursuant to Accounting Standard for Business Enterprises Interpretation No. 2 issued by the Ministry of Finance in August 2008, joint ventures were not included in the scope of consolidation. Therefore, in preparation of the financial statements for 2008, the scope of consolidation in the statements for last year did not include Wang Lao Ji and Nuo Cheng and the scope of consolidation for the Year did not include GP Corp.

III. Use of Proceeds from the Issue of A Shares

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions

1. Financial conditions of the Group

Prepared in accordance with the PRC Accounting Standards

Items	**As at 31 December 2008 (RMB'000)**	As at 31 December 2007 (RMB'000)	Change (%)
Total assets	**4,130,904**	6,165,542	(33.00)
Equity attributable to the shareholders of the Company	**3,142,842**	3,060,348	2.11
Operating profit	**176,043**	454,413	(61.26)
Net profit attributable to the shareholders of the Company	**182,496**	335,094	(45.54)
Net increase/(decrease) in cash and cash equivalents	**(219,188)**	175,906	(224.61)

Prepared in accordance with HKFRS

Items	**As at 31 December 2008 (RMB'000)**	As at 31 December 2007 (RMB'000)	Change (%)
Total assets	**4,354,664**	6,351,721	(31.44)
Capital and reserves attributable to equity holders of the Company	**3,245,305**	3,168,021	2.44
Operating profit after financial charges	**102,183**	393,645	(74.04)
Profit attributable to equity holders of the Company	**181,829**	320,343	(43.24)
Net increase/(decrease) in cash and cash equivalents	**(219,188)**	175,906	(224.61)

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions *(Continued)*

2. Liquidity

As at 31 December 2008, the current ratio of the Group was 2.51 (31 December 2007: 1.59), and its quick ratio was 1.67 (31 December 2007: 1.09). Accounts receivable turnover rate was 10.16 times, representing an increase of 9.39% as compared with that of 2007. Inventory turnover rate was 3.85 times, representing a decrease of 49.04% as compared with 2007.

3. Financial resources

As at 31 December 2008, cash and cash equivalents of the Group amounted to RMB365,858,000 (31 December 2007: RMB585,046,000), out of which approximately 98.75% and 1.25% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2008, the Group had bank borrowings of RMB273,275,000 in total, among which, RMB243,275,000 were short-term borrowings (31 December 2007: RMB968,401,000).

4. Capital structure

As at 31 December 2008, the Group's current liabilities amounted to RMB751,411,000 (31 December 2007: RMB2,749,660,000), representing a decrease of 72.67% over that of 2007, and its long-term liabilities was RMB154,582,000 (31 December 2007: RMB121,671,000), representing an increase of 27.05% as compared with 2007. The shareholders' funds amounted to RMB3,124,842,000 (31 December 2007: RMB3,060,348,000), representing an increase of 2.11% as compared with 2007.

5. Capital expenditure

The Group expects the capital expenditure for 2009 to amount to approximately RMB146 million (2008: RMB187 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions *(Continued)*

6. Gearing ratio

As at 31 December 2008, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 21.93%, representing a decrease of 24.64 percentage points as compared with 2007 (31 December 2007: 46.57%).

7. Exposure to fluctuations in exchange rates

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

8. Main cash resources and applications

As at 31 December 2008, cash and cash equivalents of the Group amounted to RMB365,858,000, with a decrease of RMB219,188,000 as compared with 2007. The net cash inflow derived from operating activities amounted to RMB6,103,000, with a decrease of RMB263,292,000 as compared with 2007, which was mainly attributable to the Group's active expansion in sales and strengthening management in accounts receivable.

9. Contingent liabilities

As at 31 December 2008, the Group had no significant contingent liabilities.

10. Charge on the Group's assets

As at 31 December 2008, the Group had no secured fixed assets.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

The State Council has basically passed the Opinions on Deepening the Reform on Medical and Hygiene System and the 2009-2011 Implementation Proposal on Deepening the Reform on Medical and Hygiene System on 21 January 2009. According to the proposed new reform on medical system, it is expected that government authorities at various levels will inject RMB850 billion for five basic reforms from 2009 to 2011. Following the gradual implementation of the medical reforms, the government expenditure on medical protection will increase annually in the future and the consumption of pharmaceutical products will increase as a result. Launch of the new reform on medical system has provided opportunities for development of the pharmaceutical market.

Further expansion of the domestic pharmaceutical market, resulting from the gradual implementation of the new reform on medical system, rapid development of modern Chinese medicine and biological medicine, rapid growth of the non-prescription medicine market, close attention paid by Guangdong and Guangzhou governments to the development of Chinese medicine industry, etc., will bring development opportunities to the Group's business. However, factors such as the continued impact of the international financial crisis on domestic macro economy, the increasingly fierce competition in the domestic pharmaceutical industry, the policy risks caused by the reform on medical system, the price adjustment of pharmaceutical products and the fluctuating prices of energy and raw materials will still have certain impact on the Group's business development in the future.

VI. The 2008 financial reports of the Group have been audited and signed by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd, the PRC auditors, and PricewaterhouseCoopers, Certified Public Accountants, the international auditors, who have both issued unqualified auditors' reports thereon.

VII. Prospects and Plans for 2009

1. To continuously strengthen the innovation of marketing, accelerate adjustment of marketing strategies and models, further smoothen the sales channels and enhance the quality of business operations. Firstly, to accelerate adjustment of marketing strategies, achieve innovation of marketing models and approach, strengthen the credit control and inventory management on distributors and major clients and supervision and management in corporate marketing activities. Secondly, to strengthen the study of state policies, be familiar with the industry development direction, seize the development opportunities brought by the medical reform, improve the national basic list of medicines, medical system in community and the New Rural Cooperative Medical System and Sunshine bidding, etc. Thirdly, to accelerate market development and expedite marketing of Kun Xian Capsule and launch of new products such as Rabies Bacterin, and endeavor to nurture new points of business growth.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VII. Prospects and Plans for 2009 *(Continued)*

2. To continuously expedite technology innovation, increase technology input, strengthen self innovation in various corporate advantageous fields, optimize product structures, enhance core competitiveness of corporate development in the future and improve application and commercial production of our new products and strengthen the quality awareness of corporate pharmaceutical products at the same time.

3. To further strengthen the supervision and management on subsidiaries, implement internal audit and control related works, regulate corporate business operations, lower operational risks and further regulate financial management, expedite comprehensive budget management, strengthen corporate capital arrangement and management as well as lower operational risks.

4. To strengthen corporate planning and basic management, continuously deepen consolidation of resources within the Group and enhance efficiency of integration.

In 2009, the Group strives to achieve sales of revenue of of RMB4 billion.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VIII. Internal control system related to fair value measurement

The assets measured in fair value of the Company are mainly tradable financial assets. The Company has monitored the fluctuation in fair value or market price of the shares of certain listed companies held by the Company and takes timely measures to protect the Company's interests. The Company has disclosed the fair value of related assets in its periodical reports, and has reported to the Board.

Items related to fair value measurement

Item	Amount at the beginning of the Reporting Period (RMB'000)	Gain/(loss) from changes in fair value of the Reporting Period (RMB'000)	Changes in accumulated fair value recognized in equity (RMB'000)	Impairment for the Reporting Period (RMB'000)	Amount at the end of the Reporting Period (RMB'000)
Financial Assets					
Of which:					
1. Financial assets measured at fair value with its changes recognized as current gain/(loss)	5,511	(2,503)	–	–	3,008
Of which:					
Derivative financial assets					
2. Financial assets available for sale	5,666	–	2,120	–	1,256
Sub-total of financial assets	11,177	(2,503)	2,120	–	4,264
Financial liabilities	–	–	–	–	–
Investment real estates	–	–	–	–	–
Biological assets for production	–	–	–	–	–
Total	11,177	(2,503)	2,120	–	4,264

DAILY OPERATIONS OF THE BOARD OF DIRECTORS

I. Board Meetings

Meeting	Date of meeting	Resolutions	Newspaper on which the information was published	Publication date
5th meeting of the Fourth Session	28 March 2008	/	Shanghai Securities News	31 March 2008
6th meeting of the Fourth Session	29 April 2008	2008 first quarterly report of the Company	/	/
7th meeting of the Fourth Session	30 June 2008	/	Shanghai Securities News	1 July 2008
8th meeting of the Fourth Session	30 July 2008			31 July 2008
9th meeting of the Fourth Session	8 August 2008			11 August 2008
10th meeting of the Fourth Session	28 August 2008	/	Shanghai Securities News	29 August 2008
11th meeting of the Fourth Session	9 October 2008	Resolution on appointment of Company Secretary in Hong Kong	/	/
12th meeting of the Fourth Session	30 October 2008	/	Shanghai Securities News	31 October 2008

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

1. Distribution of 2007 final dividend

Pursuant to the resolutions on financial accounts approval and dividend declaration passed at the 2007 annual general meeting held on 29 May 2008, 2007, final dividend of RMB1.24 (including tax for A shares) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2007.

The final dividend of RMB0.124 per share for 2007 was paid to the Company's H-share shareholders whose names appeared on the register of the Company as at 28 April 2008 on 13 June 2008.

According to the announcement for 2007 final dividend published on Shanghai Securities News in the PRC on 10 June 2008, the registration date for A shares was 13 June 2008, the ex-dividend date was 16 June 2008 and the dividend payment date was 23 June 2008.

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

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

2. Proposed scheme of profit distribution and increase in share capital through transfer from capital reserve

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

The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with PRC Accounting Standards and the amount determined in accordance with HKFRS. The Board recommended a final dividend of RMB0.04 (including tax) per share for the year ended 31 December 2008 (2007: RMB0.124 per share). The proposed final dividend will be submitted to the forthcoming 2008 annual general meeting for consideration and approval (the date and matters to be considered at the 2008 annual general meeting are to be announced).

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

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

Year	Amount of profit distribution in cash (including tax) (RMB'000)	Net profit for the year (RMB'000)	Payout ratio (%)
2005	56,763	181,813	31.22
2006	68,116	233,936	29.12
2007	100,552	335,094	30.01
Total	225,431	750,843	30.02

Note: Net profit for the Year as stated in the above table are figures after adjustment.

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

III. Report of the Discharge of Duties of the Audit Committee

During the Reporting Period, the Audit Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Audit Committee of the Company. Besides, the Audit Committee actively worked in line with the requirements set out in the "Notice on 2008 Annual Report" to oversee the auditing work for 2008 and the preparation of the annual report.

(1) Major tasks accomplished by the Audit Committee in 2008 included:

(i) convening two meetings in 2008 to review the 2007 Annual Report and 2008 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management;

(ii) evaluating the accounting policies adopted by the Group and the relevant issues regarding accounting practice;

(iii) re-appointment or change of auditors of the Company for the Year;

(iv) issuing recommendations with respect to major events of the Company or reminding the management of relevant risks. Each of the members of the committee attended all the meetings.

(2) Annual audit for 2008 and relevant jobs regarding the preparation of the Annual Report

After the issuance of the "Notice on 2008 Annual Report", all members of the Audit Committee studied the relevant requirements seriously. The Committee worked in accordance with the Guidelines in launching the auditing work for 2008 and preparatory work for the annual report of the Company, which included the following:

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

III. Report of the Discharge of Duties of the Audit Committee *(Continued)*

(2) Annual audit for 2008 and relevant jobs regarding the preparation of the Annual Report *(Continued)*

(i) The Committee negotiated with the domestic and international auditors of the Company and the Company's Finance Department regarding the schedule for audit and the relevant arrangements and set out the "Framework for the Preparation of 2008 Annual Report" and reviewed the audit plan submitted by the auditors.

(ii) The Audit Committee reviewed the preliminary financial accounting reports prepared by the Company on 10 March 2008 and communicated with the domestic and international auditors on the progress of audit and the related issues involved in the process of audit.

(iii) After the issuance of auditors' initial opinions by the domestic and international auditors, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed the 2008 Financial Reports of the Company reflected the state of affairs of the Company truly, accurately and completely, and agreed to submit the Reports to the Board for approval.

(iv) On 24 March 2009, the Audit Committee convened the first meeting for 2009 and considered and passed the 2008 Annual Report of the Company and the Company's 2008 Financial Statements. At the same time, the Audit Committee summed up its evaluation on the audit work of the domestic and international auditors and believes that both auditors have carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide to their professional ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report in time, as well as issued fair and unbiased management recommendations to the management of the Company, and completed the audit work entrusted by the Company smoothly.

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

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

During the Reporting Period, the Nomination and Remuneration Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Committee.

On 24 March 2009, the Nomination and Remuneration Committee convened the first meeting for 2009 and each of the committee members attended the meeting. Examinations and approvals were made during the meeting regarding the disclosure of emoluments of the Directors, Supervisors and Senior Management in the 2008 Annual Report. The Committee believed the disclosure of emoluments of the Directors, Supervisors and Senior Management in the 2008 Annual Report was reasonable and complied with the relevant assessment requirements of the Board of Directors, the resolutions of Shareholders' Meetings and their respective posts. At the same time, the amount of emoluments of the Directors, Supervisors and Senior Management for 2009 was considered and approved at the meeting.

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

During the Reporting Period, the Budget Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Committee.

The Company planned to implement management of budget in 2009. On 24 March 2009, the Budget Committee convened the first meeting for 2009 and the 2009 operation targets and 2009 budgeting plan were examined and passed during the meeting.

OTHER MATTERS

I. Accounts

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2008 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2008 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2008 are set out in the cash flow statement.

II. Financial Summary

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

III. Reserves

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

IV. Distributable Reserves

The profit available for distribution to shareholders is the lower of the amount determined in accordance with HKFRS and the PRC Accounting Standards. The distributable reserves of the Group as at 31 December 2008 amounted to RMB632,344,000, calculated in accordance with the PRC Accounting Standards and amounted to RMB668,781,000 calculated in accordance with HKFRS.

V. Fixed Assets

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

OTHER MATTERS *(Continued)*

VI. Connected Transactions

Pursuant to the regulations of CSRC, details of such transactions were set out in this annual report.

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

	2008 (RMB'000)
Ultimate holding company	
License fee expenses	3,330
Welfare facilities fee expense	392
Rental expense	2,803
Subsidiaries of GPHL and its related entities	
Sales of goods	152,249
Purchase of goods	204,027
Advertising expenses	20,920

In addition, other transactions with jointly controlled entities and associated companies which, pursuant to the Listing Rules of HKEx, do not constitute connected transactions, have been disclosed in notes to the financial reports prepared in accordance with HKFRS.

The Directors believe that the above-mentioned connected transactions have been conducted in full compliance with the relevant clauses in agreements and contracts governing such transactions.

The Independent Non-Executive Directors have reviewed the connected transactions and considered all the transactions as being carried out within the Company's ordinary operations and under ordinary business terms. Such terms were considered normal business terms or terms to the Company no less favourable than those available to or from independent third parties. In addition, the aggregate amount of the above connected transactions during the year has not exceeded the annual caps as stated in the agreement in relation to the sales and purchase connected transactions (as amended) entered into between the Company and GPHL or in the agreement in relation to the advertisement continuing connected transactions entered into between the Company and GPSC.

OTHER MATTERS *(Continued)*

VI. Connected Transactions *(Continued)*

The international auditors have confirmed that continuing connected transactions relating to the above sales and purchase of goods and advertising expenses with subsidiaries of GPHL and related entities pursuant to the Listing Rules of HKEx:

- had been approved by the Board of Directors of the Company;
- were entered into in accordance with the relevant pricing policies;
- were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- continuing connected transactions of sales, purchases and advertising expenses have not exceeded the annual caps as stated in the Agreement in relation to the Sales and Purchase Connected Transactions (as amended) entered into between the Company and GPHL or in the Agreement in relation to the Advertisement Continuing Connected Transactions entered into between the Company and GPSC.

VII. Management Contracts

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

VIII. Compliance with the Code on Corporate Governance Practices

Having reviewed the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of HKEx (the "Code"), 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.

IX. Tax Exemption

Pursuant to Document Guo Shui Fa [1993] No. 045 issued by the State Administration of Taxation of the PRC, individual foreigners in the PRC are exempt from income tax on dividend incomes derived from holding shares in companies listed on overseas stock exchanges, including H shares. Except for the above, there is no other tax concession scheme.

OTHER MATTERS *(Continued)*

X. Retirement Scheme

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

XI. Projects under Development and for Sale

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

Property Name	Address	Usage
Suikang Building	No.82 Shangxiajiu Road, Liwan District, Guangzhou, Guangdong, the PRC	Rental
Yinzuo Plaza	No.194 Beijing Road, Guangzhou, Guangdong, the PRC	Rental

XII. Bank Loans, Overdrafts and Other Borrowings

Details of the bank loans, overdrafts, and other borrowings of the Group as at 31 December 2008 are set out in this annual report. In comparison to 2007, there have been no material adverse changes in respect of the amounts of bank loans, short-term borrowings and total liabilities as of 31 December 2008.

XIII. Auditors

Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers. Certified Public Accountants were respectively re-appointed as domestic and international auditors of the Company for the year 2008, as approved at the 2007 AGM.

There was no change in auditors in the past three years.

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

During the Reporting Period, there was no change in the newspaper designated by the Company for information disclosure.

OTHER MATTERS *(Continued)*

XV. Explanation of Certified Public Accountants in respect of Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company

Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd., the PRC auditors of the Company, has made an explanation in respect of the funds appropriated by the controlling shareholder and other connected parties of the Company.

In accordance with the requirements set out in Document Zheng Jian Fa [2003] No. 56, Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Connected Parties and the Provision of Guarantees by Listed Companies to External Parties issued by the CSRC and the State-owned Assets Regulatory Commission under the State Council, a statement on the application of funds by the Company's controlling shareholders and other connected parties for the year ended 31 December 2008 has been prepared and is set out below:

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2008 (RMB'000)	Accumulated amount appropriated in 2008 (excluding interest) (RMB'000)	Interest on the amount appropriated in 2008 (if any) (RMB'000)	Repayment of accrued amount in 2008 (RMB'000)	Capital balance appropriated at the end of 2008 (RMB'000)	Reasons of appropriation	Nature of appropriation
GPHL	Parent Company	Other receivables	3,404	72	–	632	2,844	Prepaid rental payments and payments in ordinary course of business	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (Note 1)	Fellow Parent Company	Accounts receivable	10,588	65,838	–	65,255	11,171	Payments for goods	Operational appropriation
		Prepayments	6,000	68,243	–	61,538	12,705	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Accounts receivable	3,572	26,108	–	28,954	726	Payments for goods	Operational appropriation
		Prepayments	5,504	2,475	–	7,803	176	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Accounts receivable	1,320	8,668	–	8,918	1,070	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Accounts receivable	3,747	43,302	–	44,792	2,257	Payments for goods	Operational appropriation
		Prepayments	648	25,064	–	25,110	602	Payments for goods	Operational appropriation
Guangzhou Hua Nan Medical Apparatus Co., Ltd	Fellow Parent Company	Other receivables	100	–	–	–	100	Payments for goods	Operational appropriation Operational appropriation
Po Lian Development Co., Ltd	Fellow Parent Company	Accounts receivable	363	2,004	–	2,225	142	Payments for goods	Operational appropriation
		Prepayments	–	1,014	–	–	1,014	Payments for goods	Operational appropriation

OTHER MATTERS *(continued)*

XV. Explanation of Certified Public Accountants in respect of Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company *(continued)*

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2008 (RMB'000)	Accumulated amount appropriated in 2008 (excluding interest) (RMB'000)	Interest on the amount appropriated in 2008 (if any) (RMB'000)	Repayment of accrued amount in 2008 (RMB'000)	Capital balance appropriated at the end of 2008 (RMB'000)	Reasons of appropriation	Nature of appropriation
Guangzhou Pharmaceutical Industry Research Institute	Fellow Parent Company	Accounts receivable	1	3	–	4	–	Payments for goods	Operational appropriation
		Other receivables	–	40	–	40	–	Research and development and	Operational appropriation
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Associate of controlled related company	Accounts receivable	2,454	30,362	–	31,340	1,476	Payments for goods	Operational appropriation
Guangzhou Pharmaceutical Economic Development Company	Fellow Parent Company	Accounts receivable	–	–	–	–	–	Payments for goods	Operational appropriation
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Associate of controlled related company	Accounts receivable	1	18	–	19	–	Payments for goods	Operational appropriation
GP Corp.	Joint venture	Accounts receivable	–	260,824	–	240,758	20,066	Payments for goods	Operational transation
		Accounts receivable	–	5,749	–	–	5,749	Payments for goods	Operational transation
		Bills receivable	–	5,760	–	5,760	–	Payments for goods	Operational transation
		Prepayments (Note 2)	–	–	4,213	–	4,213	Payments for capital	Operational transation
		Entrusted loans (note 2)	–	150,000	8,973	8,973	150,000	Payments for capital	Operational transation
Wang Lao Ji	Joint venture	Accounts receivable	943	85,350	–	82,466	3,827	Payments for goods	Operational transation
		Other receivables	895	11,555	–	12,450	–	Cost of right to use a trademark	Operational transation
		Prepayments	486	–	–	486	–	Payments for goods	Operational transation
GPSC	Joint Venture	Accounts receivable	–	10	–	–	10	Payments for goods	Operational transaction
		Other receivables	–	1,531	–	1,531	–	Advertisement fee	Operational transaction
Nuo Cheng	Joint Venture	Other receivables	–	221	–	–	221	Amount transacted	Operational transaction
Total		**Entrusted loans**	**-**	**150,000**	**8,973**	**8,973**	**150,000**		
		Accounts receivable	**22,989**	**522,487**	**-**	**504,731**	**40,745**		
		Other receivables	**4,399**	**13,419**	**4,213**	**14,653**	**7,378**		
		Prepayments	**12,638**	**102,556**	**-**	**100,697**	**14,497**		
		Bills receivable	**-**	**5,749**	**-**	**-**	**5,749**		

Note 1. Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd. were merged with Guangzhou Baiyunshan Pharmaceutical Co., Ltd. as its subsidiaries during the Year.

Note 2. The transformation of GP Corp. from a subsidiary into a joint venture of the Company was completed in January 2008, the non-operating current account figures at beginning of the Year were presented as with the parent company.

OTHER MATTERS *(Continued)*

XVI. Explanation and Independent Opinions of Independent Directors in respect of Accumulated and Current Guarantees to External Parties Granted by the Company and the Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company

Based on the spirits in the Document Zheng Jian Fa [2003] No. 56, Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Connected Parties and the Provision of Guarantees by Listed Companies to External Parties, the Independent Directors of the Company have conducted examination of the policies towards the guarantees provided to the external parties by the Group in a serious manner. The relevant details are as follows:

As at 31 December 2008, the Company had provided the following guarantees to its subsidiaries:

Guaranteed parties	Guarantee amount (RMB'000)	Subject matter	Guarantee period	% of the Group's net assets as at the end of the Reporting Period (%)
Zhong Yi	20,000	Borrowings as working capital	1 year	0.71
Cai Zhi Lin	48,000	Borrowings as working capital	1 year	1.71
Pharmaceutical Import & Export Corporation	5,000	Borrowings as working capital	1 year	0.18
Guangzhou Han Fang	30,000	Borrowings as working capital	1 year	1.07
Guangzhou Bai Di	10,000	Borrowings as working capital	1 year	0.36
Cai Zhi Lin	21,211	Bills	1 year	0.75
Pharmaceutical Import & Export Corporation	10,800	Bills and letters of credit	1 year	0.38
Total	145,011			5.16

As at the end of this Reporting Period, save as disclosed above, the Group has not provided any guarantee to its controlling shareholder and any other connected parties.

On behalf of the Board
Yang Rongming
Chairman

Guangzhou, the PRC, 27 March 2009

Report of the Supervisory Committee

To all shareholders:

On behalf of the supervisory committee of the Company (the "Supervisory Committee"), I hereby report to you the duties performed by the Supervisory Committee during the year ended 31 December 2008 in accordance with the Company's Articles of Association.

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR

During the Reporting Period, four meetings were held.

Session and number of meeting	Date of meeting	Resolutions	Newspaper for publication of information	Dates for publication
4th meeting of the Fourth Session	28 March 2008	/	Shanghai Securities News	31 March 2008
5th meeting of the Fourth Session	29 April 2008	First quarterly report of the Company for the year 2008	/	/
6th meeting of the Fourth Session	28 August 2008	Interim report of the Company for the year 2008; Interim financial report of the Company for the year 2008	/	/
7th meeting of the Fourth Session	30 October 2008	Third quarterly report of the Company for the year 2008	/	/

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

1. The Company's operations during the Reporting Period

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

2. The supervision of the Company's financial conditions

The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considers that the Company's financial statements are fairly presented, and the auditing and financial management are in line with the relevant regulations. The domestic and international auditors issued their standard and unqualified auditors' reports upon auditing the accounts of the Group and the Company for the year ended 31 December 2008, which reflect an objective, true and fair view of the financial status of the Company as at 31 December 2008 and the operations results of the Group for the year then ended.

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

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

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

4. Purchases and sales of assets of the Company

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

5. Connected transactions

During the Reporting Period, the Company and GPHL entered into the agreement in relation to the sales and purchase connected transactions for connected transactions in which the sales and purchases are conducted in the ordinary course of business. The connected transactions are arrived at on an arm's length basis and do not involve any actions which may adversely affect the interests of the Company and its shareholders.

On behalf of the Supervisory Committee
Yang Xiuwei
Chairman

Guangzhou, the PRC, 27 March 2009

Major Events

I. SIGNIFICANT LITIGATION OR ARBITRATION

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

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

1. Pursuant to the Equity Transfer Agreement entered into among the Company, GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited ("Anhui Huadong ") and five natural persons including Ms. Liu Ju Yan on 10 January 2007, a 26.04% equity interest in aggregate held by GPHL, Anhui Huadong and the above five natural persons in Guangzhou Han Fang was transferred to the Company. On the same day, Guangzhou Han Fang entered into a merger agreement (the "Agreement") with Guangzhou Huan Ye. (Please refer to the announcement of the Company on Shanghai Securities News in the PRC, The Hong Kong Economic Times and Standard in Hong Kong, the PRC published on 11 January 2007).

   At present, the formalities in relation to the transfer of equity interest in Guangzhou Han Fang held by GPHL, Anhui Huadong and the five natural persons including Ms. Liu Ju Yan to the Company was completed. The formalities in relation to the merger of Guangzhou Han Fang and Guangzhou Huan Ye 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. On the same day, the Company and Alliance BMP executed the Capital Increase Contract in Guangzhou Pharmaceuticals Corporation, Joint Venture Contract and the revised and restated Articles of Association of Guangzhou Pharmaceuticals Corporation. The equity transfer and capital increase (the "Transactions") were submitted at the First EGM for 2007 and the First Class Meetings of the holders of overseas listed foreign capital shares and the holders of domestic shares for 2007 and was approved.

   Following the approval by the relevant government departments, the GP Corp. submitted the application to the Industrial and Commercial Administration Department regarding the conversion to a sino-foreign equity joint venture. The above transactions were completed on 28 January 2008. The joint venture was officially listed on 26 February 2008.

3. On 28 March 2008, the Company and GPHL entered into the Agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions under the Agreement were approved at the Board meeting on 28 March 2008 and the 2007 annual general meeting on 29 May 2008.

   Please refer to the announcement of the Company on Shanghai Securities News in the PRC published on 31 March 2008 for details.

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

4. On 28 March 2008, it was approved at the 5th Meeting of the Fourth Session of the Board to capitalise the borrowings from the Company to Guangzhou Han Fang and Guangzhou Bai Di of RMB35 million and RMB48 million respectively (Please refer to the announcement of resolutions at the 5th Meeting of the Fourth Session of the Board dated 28 March 2008 for details). At present, the formalities in relation to the capitalization of borrowings by the Company to Guangzhou Han Fang and Guangzhou Bai Di was completed.

5. On 8 August 2008, it was approved at the 9th Meeting of the Fourth Session of the Board for the Company to contribute RMB5 million for the establishment of the Huanan Xinyao Chuangzhi Company Limited, accounting for 5% of the shares thereof (Please refer to the announcement of resolutions at the 9th Meeting of the Fourth Session of the Board dated 11 August 2008 for details). During the Reporting Period, the Company has paid the first and second installments for a total of RMB3,500,000 in accordance with the contract and the third installment will be paid in accordance with the contract.

6. On 22 December 2008, it was approved at the 2nd Meeting of the Strategic Development and Investment Committee to transfer 24% equity interest in Jihua Company held by the Company for a consideration of RMB5,670,000. The Company received the consideration for the transfer of equity interest on 5 January 2009.

III. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR REAL ASSETS, DIRECT EXEMPTION OR REPAYMENT, ETC.

IV. MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

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

V. DURING THE REPORTING PERIOD, THE COMPANY HAS NOT HAD ANY ENTRUSTED INVESTMENT ACTIVITIES.

VI. PERFORMANCE OF THE UNDERTAKINGS DURING THE REPORTING PERIOD

Name of shareholder	Special undertaking	Situation of undertaking
GPHL	The shares with selling restrictions shall not be listed and traded, nor transferred within 12 months from the date of implementation of the reform plan; the number of original shares subject to selling restrictions listed, traded and sold through the Shanghai Stock Exchange shall not exceed 5% of the total number of shares of the Company within 12 months after expiry of the above stipulated term and shall not exceed 10% within 24 months.	Complied with the undertaking

VII. AS AT 31 DECEMBER 2008, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS THAT WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB34,319,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB76,821,000.

VIII. DURING THE REPORTING PERIOD, THE GROUP HAS PAID AUDITORS' REMUNERATION OF RMB1,290,000 AND RMB2,690,000 TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., AND PRICEWATERHOUSECOOPERS CERTIFIED PUBLIC ACCOUNTANTS RESPECTIVELY. OF THE AMOUNT PAID TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., RMB1,170,000 WAS PAID FOR THE 2007 ANNUAL AUDIT, AND RMB120,000 WAS PAID FOR THE 2008 INTERIM REVIEW. AN AMOUNT OF RMB2,300,000 WAS PAID TO PRICEWATERHOUSECOOPERS CERTIFIED PUBLIC ACCOUNTANTS FOR THE 2007 ANNUAL AUDIT AND RMB390,000 WAS PAID FOR THE 2008 INTERIM REVIEW. BOTH THE DOMESTIC AUDITORS AND INTERNATIONAL AUDITORS HAVE PROVIDED AUDIT SERVICES TO THE COMPANY FOR 10 YEARS.

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

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

1. Stock Investments

Number	Type of Stock	Stock Code	Stock name	Initial investment amount (RMB'000)	Number of shares held at end of the Reporting Period (share)	Book value as at the end of Reporting Period (RMB'000)	% of stock investment for the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of the Shanghai Stock Exchange	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	520	17.29	(1,248)
2	A Share of the Shanghai Stock Exchange	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	2,488	82.71	(1,212)
Other stock investments held as at the end of the Reporting Period				–	–	–	–	–
Gain/(Loss) of stock investments sold as at the end of the Reporting Period				–	–	–	–	–
Total				5,511	280,356	3,008	100.00	(2,460)

Notes: In August 2002, the Company acquired the treasury bond 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 bond was 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-trading transfer method and RMB374,912.55 in cash from the liquidator team of Nanfang Security.

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

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

Stock Code	Stock name	Initial investment amount (RMB'000)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	269	–	1,255	20	(2,126)	Available-for-sale financial assets	Acquired (note)

Notes: (1) The shares of Bank of Communications were being held by the subsidiaries of the Company and have been listed on the Shanghai Stock Exchange and were calculated as transfer of long term equity investment into available-for-sale financial assets according to New Accounting Standards.

(2) As at 31 December 2007, GP Corp. held 97,879 shares in the Bank of Communications, the stock market value of which was RMB1,529,000. With effect from 2008, the Company applied equity method in the accounting of GP Corp, a jointly venture. Therefore, the number of shares in the Bank of Communications held by the Group and the book value thereof as at the beginning of 2008 decreased accordingly.

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

Name	Initial investment amount (RMB'000)	Number of shares held (share)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
China Everbright Bank Company Limited	10,725	6,050,000	approx. 0.02	10,725	-	-	Long-term equity investment	Acquired
Golden Eagle Fund Management Co., Ltd.	20,000	-	20.00	15,517	(141)	-	Long-term equity investment	Acquired

XI INDEX TO THE INFORMATION DISCLOSED

<table>
<tr><th>Disclosed information</th><th>Newspaper</th><th>Date</th><th>Website and the link</th></tr>
<tr><td>Announcement on completion of major transaction of the Company</td><td>Page D16 of Shanghai Securities News</td><td>29 January 2008</td><td rowspan="2">http://www.sse.com.cn
http://www.hkex.com.hk
http://gpc.wsfg.hk</td></tr>
<tr><td>Announcement of the Company</td><td>Page A6 of Shanghai Securities News</td><td>3 March 2008</td></tr>
<tr><td>Announcement on the date for Board meeting of the Company</td><td>/</td><td>13 March 2008</td><td>http://www.hkex.com.hk
http://gpc.wsfg.hk</td></tr>
<tr><td>Announcement of resolutions passed at on the fifth meeting of the Fourth Session of the Board, announcement on the resolutions of the fourth meeting of the Fourth Session of Supervisory Committee and announcement on continuing connected transaction</td><td>Page A13 and A14 of Shanghai Securities News</td><td>31 March 2008</td><td rowspan="5">http://www.sse.com.cn
http://www.hkex.com.hk
http://gpc.wsfg.hk</td></tr>
<tr><td>Announcement on convening 2007 Annual General Meeting of the Company</td><td>Page 16 of Shanghai Securities News</td><td>14 April 2008</td></tr>
<tr><td>Announcement on listing of circulating shares with selling restrictions</td><td>Page D88 of Shanghai Securities News</td><td>18 April 2008</td></tr>
<tr><td>2008 First Quarterly Report of the Company</td><td>Page D73 of Shanghai Securities News</td><td>30 April 2008</td></tr>
<tr><td>Announcement on resolutions of 2007 Annual General Meeting of the Company</td><td>Page D16 of Shanghai Securities News</td><td>30 May 2008</td></tr>
<tr><td>Announcement of Annual General Meeting on payment of 2007 dividend of the Company</td><td>Page A14 of Shanghai Securities News</td><td>10 June 2008</td><td>http://www.sse.com.cn</td></tr>
</table>

XI INDEX TO THE INFORMATION DISCLOSED *(Continued)*

<table>
<tr><th>Disclosed information</th><th>Newspaper</th><th>Date</th><th>Website and the link</th></tr>
<tr><td>Announcement of the seventh meeting of the Fourth Session of the Board of the Company</td><td>Page D22 of Shanghai Securities News</td><td>1 July 2008</td><td rowspan="3">http://www.sse.com.cn
http://www.hkex.com.hk
http://www.equitynet.com.hk/0874/</td></tr>
<tr><td>Announcement of resolutions passed at the eighth meeting of the Fourth Session of the Board of the Company</td><td>Page C9 of Shanghai Securities News</td><td>31 July 2008</td></tr>
<tr><td>Announcement of resolutions passed at the ninth meeting of the Fourth Session of the Board of the Company</td><td>Page A8 of Shanghai Securities News</td><td>11 August 2008</td></tr>
<tr><td>Date of Board Meeting the Company</td><td>/</td><td>14 August 2008</td><td>http://www.hkex.com.hk
http://www.equitynet.com.hk/0874/</td></tr>
<tr><td>Announcement of Resolutions Passed at the 10th Meeting of the Fourth Session of the Board and Summary of 2008 Interim Report of the Company</td><td>Page C113 and C114 of Shanghai Securities News</td><td>29 August 2008</td><td rowspan="3">http://www.sse.com.cn
http://www.hkex.com.hk
http://www.equitynet.com.hk/0874/</td></tr>
<tr><td>Announcement on Increase of Shares of the Company by the Controlling Shareholder</td><td>Page C14 of Shanghai Securities News</td><td>23 September 2008</td></tr>
<tr><td>Change of Company Secretary</td><td>/</td><td>9 October 2008</td></tr>
<tr><td>Date of Board Meeting</td><td>/</td><td>15 October 2008</td><td>http://www.hkex.com.hk
http://www.equitynet.com.hk/0874/</td></tr>
<tr><td>Announcement of Resolutions Passed at the 12th Meeting of the Fourth Session of the Board and 2008 Third Quarterly Report of the Company</td><td>Page C41 of Shanghai Securities News</td><td>30 October 2008</td><td>http://www.sse.com.cn
http://www.hkex.com.hk
http://www.equitynet.com.hk/0874/</td></tr>
</table>

Independent Auditor's Report

To the shareholders of
Guangzhou Pharmaceutical Company Limited
(a joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Guangzhou Pharmaceutical Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 79 to 169, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2009

Consolidated Balance Sheet

	Note	As at 31 December 2008 RMB'000	2007 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,311,088**	1,379,603
Investment property	7	**135,426**	76,389
Leasehold land and land use rights	8	**97,164**	120,841
Intangible assets	9	**12,162**	25,977
Investments in associates	11	**19,695**	27,349
Investments in jointly controlled entities	12	**787,580**	248,043
Available-for-sale financial assets	13	**16,272**	17,223
Deferred income tax assets	23	**47,222**	52,047
		2,426,609	1,947,472
Current assets			
Inventories	14	**633,059**	1,377,613
Trade and other receivables	15	**869,066**	2,377,012
Financial assets at fair value through profit or loss		**3,008**	5,511
Tax recoverable	16	**41,788**	25,327
Restricted cash	17	**15,275**	33,740
Cash and cash equivalents	18	**365,859**	585,046
		1,928,055	4,404,249
Total assets		**4,354,664**	6,351,721
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital	19	**810,900**	810,900
Share premium	19	**781,134**	781,134
Other reserves	20	**984,490**	1,061,328
Retained earnings			
– Proposed final dividend	33	**32,436**	100,552
– Others		**636,345**	414,107
		3,245,305	3,168,021
Minority interest in equity		**115,460**	249,371
Total equity		**3,360,765**	3,417,392

Consolidated Balance Sheet

	Note	2008 RMB'000	2007 RMB'000 (Restated)
		As at 31 December	
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	23	**46,959**	35,817
Government grants		**13,525**	8,393
Employee benefits	24	**25,124**	39,615
Borrowings	22	**30,000**	–
		115,608	83,825
Current liabilities			
Trade and other payables	21	**628,926**	1,854,913
Dividend payables		**58**	2,031
Current income tax liabilities		**6,032**	25,158
Borrowings	22	**243,275**	968,402
		878,291	2,850,504
Total liabilities		**993,899**	2,934,329
Total equity and liabilities		**4,354,664**	6,351,721
Net current assets		**1,049,764**	1,553,745
Total assets less current liabilities		**3,476,373**	3,501,217

Shi Shaobin
Director

Feng Zansheng
Director

The notes on pages 87 to 169 are an integral part of these financial statements.

Balance Sheet

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**16,971**	18,934
Investment property	7	**62,232**	42,385
Intangible assets	9	**–**	486
Investments in subsidiaries	10	**1,454,836**	1,520,126
Investments in associates	11	**15,565**	17,928
Investments in jointly controlled entities	12	**324,752**	102,035
Available-for-sale financial assets	13	**14,425**	10,925
Deferred income tax assets	23	**2,022**	1,537
		1,890,803	1,714,356
Current assets			
Inventories	14	**10,135**	14,444
Trade and other receivables	15	**605,504**	730,469
Dividends receivable from subsidiaries		**68,598**	97,097
Financial assets at fair value through profit or loss		**3,008**	5,511
Cash and cash equivalents	18	**158,747**	68,150
		845,992	915,671
Total assets		**2,736,795**	2,630,027
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital	19	**810,900**	810,900
Share premium	19	**781,134**	781,134
Other reserves	20	**603,475**	546,758
Retained earnings	31		
– Proposed final dividend	33	**32,436**	100,552
– Others		**397,351**	268,484
Total equity		**2,625,296**	2,507,828

Balance Sheet

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	23	**6,319**	–
		6,319	–
Current liabilities			
Trade and other payables	21	**50,855**	63,744
Current income tax liabilities		**4,325**	8,455
Borrowings	22	**50,000**	50,000
		105,180	122,199
Total liabilities		**111,499**	122,199
Total equity and liabilities		**2,736,795**	2,630,027
Net current assets		**740,812**	793,472
Total assets less current liabilities		**2,631,615**	2,507,828

Shi Shaobin
Director

Feng Zansheng
Director

The notes on pages 87 to 169 are an integral part of these financial statements.

Consolidated Income Statement-by Function of Expense

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000 (Restated)
Revenue	5	**3,450,586**	11,873,514
Cost of goods sold	27	**(2,446,620)**	(10,086,073)
Gross profit		**1,003,966**	1,787,441
Other operating income	25	**95,223**	73,382
Other gains-net	26	**100,146**	33,339
Other operating expenses		**(10,544)**	(6,265)
Selling and marketing costs	27	**(626,191)**	(919,921)
Administrative expenses	27	**(452,603)**	(512,502)
Operating profit		**109,997**	455,474
Finance costs-net	29	**(7,814)**	(61,829)
Share of (loss)/profit of associates	11	**(5,171)**	7,889
Share of profit of jointly controlled entities	12	**111,540**	48,176
Profit before income tax		**208,552**	449,710
Income tax expense	30	**(37,256)**	(119,859)
Profit for the year		**171,296**	329,851
Attributable to:			
Shareholders of the Company		**181,829**	320,343
Minority interest		**(10,533)**	9,508
		171,296	329,851
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)			
– basic and diluted	32	**0.224**	0.395
Dividends	33	**32,436**	100,552

The notes on pages 87 to 169 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company					
	Share capital and share premium RMB'000	Other reserves (Note 20) RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2007	1,592,034	1,085,486	219,869	2,897,389	182,991	3,080,380
Fair value gains, net of tax						
– Available-for-sale financial assets	–	7,520	–	7,520	–	7,520
Revaluation of investment properties upon initial recognition, net of tax	–	893	–	893	–	893
Decrease in deferred tax liabilities resulting from change in income tax rate	–	9,992	–	9,992	–	9,992
Depreciation transfer on asset revaluation during reorganisation, net of tax	–	(2,819)	2,819	–	–	–
Net income recognised directly in equity	–	15,586	2,819	18,405	–	18,405
Profit for the year	–	–	320,343	320,343	9,508	329,851
Total recognised income and expense for 2007	–	15,586	323,162	338,748	9,508	348,256
Dividend relating to 2006	–	–	(68,116)	(68,116)	(15,155)	(83,271)
Transfer from reserves according to new Chinese Accounting Standards ("CAS")	–	(99,289)	99,289	–	–	–
Impact of capital injection from minority interest	–	(31,810)	31,810	–	72,027	72,027
Appropriation to surplus reserves	–	90,909	(90,909)	–	–	–
Others	–	446	(446)	–	–	–
	–	(39,744)	(28,372)	(68,116)	56,872	(11,244)
Balance at 31 December 2007	1,592,034	1,061,328	514,659	3,168,021	249,371	3,417,392

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company					
	Share capital and share premium RMB'000	Other reserves (Note 20) RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2008	1,592,034	1,061,328	514,659	3,168,021	249,371	3,417,392
Fair value losses, net of tax						
– Available-for-sale financial assets	–	(3,755)	–	(3,755)	–	(3,755)
Revaluation of investment properties upon initial recognition, net of tax	–	13,458	–	13,458	–	13,458
Depreciation transfer on asset revaluation during reorganisation, net of tax	–	(3,725)	3,725	–	–	–
Net income recognised directly in equity	–	5,978	3,725	9,703	–	9,703
Profit/(loss) for the year	–	–	181,829	181,829	(10,533)	171,296
Total recognised income and expense for 2008	–	5,978	185,554	191,532	(10,533)	180,999
Dividend relating to 2007	–	–	(100,552)	(100,552)	(13,831)	(114,383)
Liquidation of a subsidiary	–	–	–	–	(3,085)	(3,085)
Disposal of an associate	–	(68)	–	(68)	–	(68)
Impact of acquisition of interests in subsidiaries from minority interest	–	(13,628)	–	(13,628)	(9,868)	(23,496)
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution)	–	(126,183)	126,183	–	(96,594)	(96,594)
Appropriation to surplus reserves	–	56,617	(56,617)	–	–	–
Others	–	446	(446)	–	–	–
	–	(82,816)	(31,432)	(114,248)	(123,378)	(237,626)
Balance at 31 December 2008	1,592,034	984,490	668,781	3,245,305	115,460	3,360,765

The notes on pages 87 to 169 are an integral part of these financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000 (Restated)
Cash flows from operating activities			
Cash generated from operations	34	**104,920**	386,622
Interest paid		**(10,197)**	(57,216)
Income tax paid		**(59,665)**	(145,035)
Net cash generated from operating activities		**35,058**	184,371
Cash flows from investing activities			
Purchase of minority interests in subsidiaries		**(25,223)**	–
Cash contribution paid to a jointly controlled entity		**(10,000)**	–
Disposal of subsidiaries, net of cash disposed	34	**(245,071)**	–
Purchase of property, plant and equipment and construction in progress		**(144,962)**	(114,641)
Proceeds from sale of property, plant and equipment	34	**2,302**	2,115
Purchase of intangible assets		**(6,609)**	(1,093)
Purchase of leasehold land and land use rights		**–**	(191)
Purchase of available-for-sale financial assets		**(3,500)**	–
Proceeds from disposal of available-for-sale financial assets		**–**	11,097
Proceed from disposal of interests in an associate		**–**	181
Interest received		**11,370**	6,053
Dividends received from available-for-sale financial assets		**1,034**	406
Dividends received from jointly control entities		**107,290**	10,125
Loans granted to a jointly controlled entity		**(150,000)**	–
Loans repayment received from a jointly controlled entity		**212,660**	–
Proceeds from government grants		**8,271**	4,264
Net cash used in investing activities		**(242,438)**	(81,684)
Cash flows from financing activities			
Capital contribution from minority interest		**–**	100,860
Proceeds from bank borrowings		**338,175**	1,247,520
Repayments of bank borrowings		**(235,558)**	(1,200,276)
Dividends paid to shareholders of the Company		**(100,808)**	(68,116)
Dividends paid to minority interest		**(13,292)**	(4,207)
Proceeds from borrowing from a jointly controlled entity		**30,000**	30,000
Repayments of borrowing to a jointly controlled entity		**(30,000)**	(30,000)
Net cash (used in)/generated from financing activities		**(11,483)**	75,781
Net (decrease)/increase in cash and cash equivalents		**(218,863)**	178,468
Cash and cash equivalents at beginning of the year		**585,046**	409,140
Effect of foreign exchange rate changes on cash and cash equivalents		**(324)**	(2,562)
Cash and cash equivalents at end of the year	18	**365,859**	585,046

The notes on pages 87 to 169 are an integral part of these financial statements.

Notes to the consolidated financial statements

1 GENERAL INFORMATION

Guangzhou Pharmaceutical Company Limited (the "Company") is a joint stock company established in the People's Republic of China (the "PRC") with limited liability on 1 September 1997. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 30 October 1997 and its A shares have been listed on The Shanghai Stock Exchange since 6 February 2001. The Company and its subsidiaries (together, the "Group") are principally engaged in the manufacture of Chinese Patent Medicine ("CPM"), the wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine.

The address of its registered office is 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC.

Guangzhou Pharmaceutical Corporation Limited ("GPC Limited") was previously a principal subsidiary of the Group. On 27 January 2007, pursuant to agreements entered into between the Company, Alliance BMP Limited and the other minority shareholders of GPC Limited, Alliance BMP Limited acquired an aggregate equity interest of 50% in GPC Limited. Following a series of capital contributions from and acquisitions by Alliance BMP Limited, the Group's equity interest in GPC Limited was diluted to 50%. The entire transaction was completed on 28 January 2008 and since then, GPC Limited ceased to be a subsidiary of the Group and became a jointly controlled entity.

These consolidated financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Excepted as described below, these policies have been consistently applied to all the years presented.

(a) Change in accounting policy for investment in jointly controlled entities

In previous years, the Group's investment in jointly controlled entities were accounted for by proportionate consolidation. The Group combined its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

In 2008, following the announcement of Interpretation 2 of the China Accounting Standards 2006 ("CAS 2006") by the Ministry of Finance which specified that companies with both A and H shares listed on the stock exchanges should apply consistent accounting policies, to the extent possible, for the financial statements prepared in accordance with both CAS 2006 and Hong Kong Financial Reporting Standards ("HKFRS"), the Group changed its accounting policy of the jointly controlled entities from proportionate consolidation to equity method in the financial statements prepared in accordance with the CAS 2006. In order to provide consistent financial information under CAS 2006 and HKFRS and provide more relevant financial information as it is consistent with the industry practices, to facilitate the users of financial information to better understand the Group's financial position and operation results, the Group also changed its accounting policy of the jointly controlled entities from proportionate consolidation to equity method, which is disclosed with details in Note 2.2(d) Jointly controlled entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Change in accounting policy for investment in jointly controlled entities *(Continued)*

The changes in the accounting policies should be applied retrospectively and accordingly the comparative figures for 2007 have been reclassified as follows:

Consolidated balance sheet

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Increase in:		
Investments in jointly controlled entities	**302,370**	248,043
Decrease in:		
Other non-current assets	**101,756**	89,419
Current assets	**304,897**	200,073
Non-current liabilities	**5,770**	1,904
Current liabilities	**98,513**	39,545

Consolidated income statement

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Increase in:		
Share of profit of jointly controlled entities	**69,658**	48,176
Decrease in:		
Revenue	**619,494**	387,230
Expenses	**537,917**	331,958
Income tax expense	**11,919**	7,096

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Transaction with minority interests

In previous years, the Group disclosed a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests resulted in gains and losses for the Group that were recorded in the consolidated income statement. Purchases from minority interests resulted in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

In 2008, the Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is equity. Gains or losses on disposals to minority interests are also recorded in equity.

The application of the new policy to past transactions did not result in any change in net assets and net profit attributable to shareholders of the Company in previous years.

2.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments effective in 2008

The HKAS 39, "Financial instruments: Recognition and measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. Management is currently assessing the impact of HKFRS 8.

HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

HKAS 23 (Revised), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) retrospectively from 1 January 2009. Management is currently assessing the impact of HKAS 23 (Revised).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

HKAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

HKAS 32 (Amendment), "Financial instruments: Presentation", and HKAS 1 (Amendment), "Presentation of financial statements"-"Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1(Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

HKFRS 1 (Amendment), "First time adoption of HKFRS" and HKAS 27(Amendment), "Consolidated and separate financial statements"-"Cost of an investment in a subsidiary, jointly controlled entity or associate" (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

HKFRS 3 (Revised), "Business combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

HKICPA's improvements to HKFRS published in October 2008:

- HKAS 1 (Amendment), "Presentation of financial statements" (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, "Financial instruments: Recognition and measurement" are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

- HKAS 19 (Amendment), "Employee benefits" (effective from 1 January 2009).

  – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  – The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  – HKAS 37, "Provisions, contingent liabilities and contingent assets" requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

  The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 "Financial instruments: Recognition and measurement". This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

- HKAS 28 (Amendment), "Investments in associates" (and consequential amendments to HKAS 32, "Financial Instruments: Presentation" and HKFRS 7, "Financial instruments: Disclosures") (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

- HKAS 36 (Amendment), "Impairment of assets" (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- HKAS 38 (Amendment), "Intangible assets" (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply HKFAS 38 (Amendment) from 1 January 2009. Management is currently assessing the impact of HKFAS 38 (Amendment).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKAS 39 (Amendment), "Financial instruments: Recognition and measurement" (effective from 1 January 2009).

  – This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  – The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  – The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, "Operating segments" which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. See note 3.1 for further details. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker) but the Group will not formally document and test this hedging relationship.

  – When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- There are a number of minor amendments to HKFRS 7, "Financial instruments: Disclosures", HKAS 8, "Accounting policies, changes in accounting estimates and errors", HKAS 10, "Events after the balance sheet date", HKAS 18, "Revenue" and HKAS 34, "Interim financial reporting" which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (Note 2.7(a)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is equity. Gains or losses on disposals to minority interests are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.9 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associates *(Continued)*

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in investment in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.9). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(d) Jointly controlled entities

Jointly controlled entities are entities where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi Yuan, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

2.5 Property, plant and equipment

The Group has revalued its property, plant and equipment when it was reorganised in 1997. The revaluation result was deemed as the initial historical cost of the property, plant and equipment.

Increases in the then carrying amount arising on revaluation of property, plant and equipment are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from "other reserves" to "retained earnings".

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

Subsequent to the reorganisation, all property, plan and equipment were measured at historical cost.

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs less accumulated impairment to their residual values over their estimated useful lives, as follows:

– Plant and buildings	15 – 50 years
– Machinery and equipment	4 – 18 years
– Motor vehicles	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost. Cost includes the costs of construction of property and costs of plant and equipment. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) – net", in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment property

Property that is held for long-term rental yields and/or for capital appreciation, and is not occupied by the entities in the consolidated group, is classified as investment property.

Investment property comprises land held under operating leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed by external valuers.

Changes in fair values are recognised in the consolidated income statement as part of "other gains/(losses) – net".

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Patents and trademarks

Patents and trademarks are shown at historical cost. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives (5 to 10 years).

(c) Staff quarters reform costs

Staff quarters reform costs are expenditures incurred by the Group prior to year 2000 in relation to purchases of staff quarters for its employees. Such costs are recognised as an asset. These costs are amortised on a straight-line basis over a period of not more than 10 years to reflect the estimated average remaining service life of the employees of the Group in which the related economic benefits are recognised.

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives (3 to 5 years).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(b) management intends to complete the intangible asset and use or sell it;
(c) there is an ability to use or sell the intangible asset;
(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.9 Impairment of investments in subsidiaries, jointly controlled entities, associates and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Note 2.12 and 2.13).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the consolidated income statement within “other gains/(losses) – net”, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of “other operating income” when the Group’s right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as “Other gains/(losses)-net”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of “other operating income”. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of “other operating income” when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss-is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.12.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for it intended use. Other borrowing costs are expensed as incurred.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee benefits

(a) Pension obligations

The Group participates in the defined contribution employee retirement schemes regarding pension benefits required under existing PRC legislation. The defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group's obligations include contributions to a defined contribution retirement plan at a certain percentage of the salaries of the employees. The regular contributions are charged to the consolidated income statement when services are rendered by the employees. Once the contributions have been paid, the Group has no further payment obligations.

(b) Housing benefit

The Group's contributions to the defined contribution housing fund scheme administered by a government agency determined at a certain percentage of the salaries of the employees are expensed when services are rendered by the employees.

(c) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme administered by a government agency for existing employees are expensed when services are rendered by the employees.

Contributions to the defined contribution medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods – wholesale

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

(b) Sales of goods – retail

Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) License fee income

License fee income is recognised when the right to received payment is established.

(e) Dividend income

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

(f) Rental income

Rental income is recognised on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land and land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (mainly foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department (Group Finance) under policies approved by the Board of Directors. Group Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and liquidity risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and HK dollars. The Group's businesses are principally conducted in RMB, except for imports and exports of western pharmaceutical products that are mainly conducted in US dollars and HK dollars.

At 31 December 2008, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of RMB4,556,000 (2007: RMB11,667,000), trade and other receivables of RMB9,252,000 (2007: RMB12,789,000) and trade and other payables of RMB13,780,000 (2007: RMB17,346,000) were denominated in US dollars or HK dollars.

Foreign exchange risk arises from such future commercial transactions, recognised assets and liabilities could affect the Group's results of operations.

The Group closely monitors trend of exchange rates and its impact on the Group's exchange risk exposure. The Group currently does not have any exchange rate swap arrangement but will consider hedging exchange rate risk should it be arisen.

At 31 December 2008, if RMB had strengthened/weakened by 10% against US dollars and HK dollars with all other variables held constant, post-tax profit for the year would have been changed as follows:

RMB'000	**RMB against US dollars**	
	strengthen by 10%	**weaken by10%**
	impact on post-tax profit	
Denominated in US dollars		
Cash and cash equivalents	**(199)**	**199**
Trade and other receivables	**(579)**	**579**
Trade and other payables	**771**	**(771)**

RMB'000	**RMB against HK dollars**	
	strengthen by 10%	**weaken by 10%**
	impact on post-tax profit	
Denominated in HK dollars		
Cash and cash equivalents	**(256)**	**256**
Trade and other receivables	**(347)**	**347**
Trade and other payables	**607**	**(607)**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the Chinese government.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

The Group is currently not exposed to significant price risk as only limited equity securities are held.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings, details of which have been disclosed in Note 22. All of the Group's borrowings were at fixed rates. As most of the Group's borrowings are current with short maturities of less than one year, exposure to fair value interest rate risk is limited.

(b) Credit risk

The carrying amounts of restricted cash, cash and cash equivalents, trade and other receivables (excluding prepayments) represent the Group's maximum exposure to credit risk at the reporting date in relation to financial assets. The Group has no significant concentrations of credit risk.

The Group has limited its cash credit exposure by restricting their selection of financial institutions on those reputation local banks and state-owned banks.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

The Group also has policies in place to ensure that sales of products are made to wholesale customers with appropriate credit history. Sales to retail customers are settled in cash or using major credit cards. The Group does not have an independent assessment on its customers' credit ratings. The Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. Generally, customers are granted credit terms ranging from 3 to 12 months.

Normally, the Group does not require collaterals from trade debtors. Management makes periodic collective assessment as well as individual assessments on the recoverability of trade and other receivables based on historical payment records, length of overdue period, financial strength of the debtors and whether there are trade disputes with the debtors.

Bills receivable are accepted by banks with high credit rating, management considers they are of high credit quality.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Finance maintains flexibility in funding by arranging banking facilities.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facility (Note 22) and cash and cash equivalents (Note 18) on the basis of expected cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000
Group		
At 31 December 2008		
Borrowings	243,275	30,000
Trade payables	335,668	–
Other payables and accrued charges	293,258	–
At 31 December 2007 (Restated)		
Borrowings	968,402	–
Trade payables	1,568,686	–
Other payables and accrued charges	286,227	–
Company		
At 31 December 2008		
Borrowings	50,000	–
Trade payables	32,543	–
Other payables and accrued charges	18,312	–
At 31 December 2007		
Borrowings	50,000	–
Trade payables	35,910	–
Other payables and accrued charges	27,834	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt.

The net debt/equity ratios at 31 December 2008 and 2007 were as follows:

	2008	2007
	RMB'000	RMB'000
		(Restated)
Total borrowings (Note 22)	**273,275**	968,402
Less: Cash and cash equivalents (Note 18)	**(365,859)**	(585,046)
Net (cash)/debt	**(92,584)**	383,356
Total equity		3,417,392
Total capital		3,800,748
Net debt/equity ratio		10%

In 2008, cash and cash equivalents were in excess of total borrowings, indicating a successful implementation of the Group's capital risk management policy.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instrument that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods such as estimated discounted cash flows and makes assumptions that are based on market conditions existing at each the balance sheet date.

The carrying amounts of the Group's restricted cash, cash equivalents, trade and other receivables excluding prepayment less impairment provision, and financial liabilities including trade and other payables excluding statutory liabilities, short-term borrowings, approximate their fair value due to their short maturities. The fair value of non-current borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant, and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant, and equipment. This estimate is based on the historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition. Management reassesses the estimations at the balance sheet date.

(c) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Management reassesses the provision at the balance sheet date.

(d) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

(e) Fair value of investment property

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within the range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(e) Fair value of investment property *(Continued)*

(iii) Discounted cash flow projection based on reliable estimates of future cash flows derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The Group estimated the fair value of investment properties based on the results from independent and professionally qualified valuers.

(f) Current and deferred income tax

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

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

(g) Medical insurance

The Group uses discounted future cash flows to determine the medical insurance obligation. The present value of the provision for the medical insurance obligation depends on the average expectancy of the retired and to be retired employees and annual increase rate of average salary, which are determined by reference to the available market information. The discount rate is determined by reference to market yields at the balance sheet date on high quality investments.

Notes to the consolidated financial statements

5 SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2008, the Group is organised into the following business segments:

- Manufacturing of CPM;
- Wholesale of western pharmaceutical products, CPM, Chinese raw medicine, 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 revenue from the above business segments, which are RMB 3,450,586,000 and RMB 11,873,514,000 for the years ended 31 December 2008 and 2007 respectively.

The segment results for the year ended 31 December 2008 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
Total segment revenue	1,822,993	1,926,596	136,717	202,464	–	(638,184)	3,450,586
Inter-segment revenue	12,230	(577,563)	(157)	(72,694)	–	638,184	–
Revenue	1,835,223	1,349,033	136,560	129,770	–	–	3,450,586
Segment results	45,184	12,280	6,292	4,874	72,764	(31,397)	109,997
Operating profit							109,997
Finance costs-Net (Note 29)							(7,814)
Share of loss of associates (Note 11)	(4,883)				(288)		(5,171)
Share of profit of jointly controlled entities(Note 12)	67,672	43,868					111,540
Profit before income tax							208,552
Income tax expense (Note 30)							(37,256)
Profit for the year							171,296

Notes to the consolidated financial statements

5 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment results for the year ended 31 December 2007 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
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Total segment revenue	2,438,156	9,972,784	353,687	227,592	–	(1,118,705)	11,873,514
Inter-segment revenue	(66,478)	(1,024,230)	(435)	(27,562)	–	1,118,705	–
Revenue	2,371,678	8,948,554	353,252	200,030	–	–	11,873,514
Segment results	304,376	157,233	9,791	4,237	38,010	(58,173)	455,474
Operating profit							455,474
Finance costs-Net (Note 29)							(61,829)
Share of profit of associates (Note 11)	42				7,847		7,889
Share of profit of jointly controlled entities(Note12)	48,176						48,176
Profit before income tax							449,710
Income tax expense (Note 30)							(119,859)
Profit for the year							329,851

5 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

Other segment items for the year ended 31 December 2008 included in the consolidated income statement are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation (Note 6)	92,194	3,161	1,268	159	7,285	104,067
Amortisation (Notes 8 and 9)	14,378	430	–	52	565	15,425
Impairment of inventories (Note 14)	5,285	6,015	–	–	–	11,300
Reversal of impairment for inventories (Note 14)	(1,356)	–	–	–	–	(1,356)

Other segment items for the year ended 31 December 2007 included in the consolidated income statement are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Depreciation (Note 6)	82,585	15,371	2,798	178	3,291	104,223
Amortisation (Notes 8 and 9)	12,488	5,705	–	–	245	18,438
Impairment of inventories (Note 14)	11,898	722	–	–	–	12,620
Impairment of property, plant, and equipment (Note 6)	–	44	–	–	–	44

The segment assets and liabilities at 31 December 2008 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	2,620,417	614,419	59,997	86,719	751,886	(586,049)	3,547,389
Associates	4,130	–	–	–	15,565	–	19,695
Jointly controlled entities	303,367	484,213	–	–	–	–	787,580
Total assets	2,927,914	1,098,632	59,997	86,719	767,451	(586,049)	4,354,664
Liabilities	851,192	578,668	57,975	62,962	29,151	(586,049)	993,899
Capital expenditure (Notes 6, 8 and 9)	183,901	2,590	–	30	365	–	186,886

5 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are restated 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
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Assets	2,432,931	3,349,140	161,609	120,207	751,346	(738,904)	6,076,329
Associates	8,992	–	–	–	18,357	–	27,349
Jointly controlled entities	248,043	–	–	–	–	–	248,043
Total assets	2,689,966	3,349,140	161,609	120,207	769,703	(738,904)	6,351,721
Liabilities	562,133	2,891,969	88,265	97,278	33,588	(738,904)	2,934,329
Capital expenditure (Notes 6, 8 and 9)	96,274	11,930	1,002	21	394	–	109,621

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 jointly controlled entities and associates, inventories, trade and other receivables, and cash and cash equivalents. Unallocated assets comprise deferred taxation, investment property, available-for-sale financial assets, 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 (Note 6), leasehold land and land use rights (Note 8) and intangible assets (Note 9).

The secondary reporting format – geographical segments

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

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2007 (Restated)					
Cost	1,100,027	886,974	76,539	123,096	2,186,636
Accumulated depreciation	(310,702)	(385,917)	(57,173)	–	(753,792)
Accumulated impairment	(10,913)	(5,719)	(360)	(130)	(17,122)
Net book amount	778,412	495,338	19,006	122,966	1,415,722
Year ended 31 December 2007 (Restated)					
Opening net book amount	778,412	495,338	19,006	122,966	1,415,722
Additions	285	10,146	1,469	96,437	108,337
Transfer	71,782	45,475	978	(118,235)	–
Transfer to investment property (Note 7)	(36,425)	–	–	–	(36,425)
Disposals (Note 34)	(1,852)	(582)	(490)	(840)	(3,764)
Depreciation (Note 27)	(40,751)	(58,024)	(5,448)	–	(104,223)
Impairment charge (Note 27)	–	–	(44)	–	(44)
Closing net book amount	771,451	492,353	15,471	100,328	1,379,603
At 31 December 2007 (Restated)					
Cost	1,125,697	924,892	76,234	100,458	2,227,281
Accumulated depreciation	(343,333)	(426,820)	(60,359)	–	(830,512)
Accumulated impairment	(10,913)	(5,719)	(404)	(130)	(17,166)
Net book amount	771,451	492,353	15,471	100,328	1,379,603
Year ended 31 December 2008					
Opening net book amount	771,451	492,353	15,471	100,328	1,379,603
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	(87,657)	(25,185)	(7,770)	(5,271)	(125,883)
Additions	7,579	39,131	1,094	131,493	179,297
Transfer	122,120	45,210	669	(167,999)	–
Transfer to investment property (Note 7)	(14,747)	–	–	–	(14,747)
Disposals (Note 34)	(1,895)	(1,134)	(86)	–	(3,115)
Depreciation (Note 27)	(46,635)	(53,631)	(3,801)	–	(104,067)
Closing net book amount	750,216	496,744	5,577	58,551	1,311,088
At 31 December 2008					
Cost	1,091,576	951,244	57,754	58,681	2,159,255
Accumulated depreciation	(338,012)	(449,185)	(51,773)	–	(838,970)
Accumulated impairment	(3,348)	(5,315)	(404)	(130)	(9,197)
Net book amount	750,216	496,744	5,577	58,551	1,311,088

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation charged to the cost and expenses as below:

	2008 RMB'000	2007 RMB'000 (Restated)
Cost of goods sold	**72,664**	61,335
Selling and marketing cost	**2,297**	9,531
Administrative expenses	**29,106**	33,357
	104,067	104,223

Lease rental expenses amounting to RMB 28,346,000 (2007: RMB 38,591,000) relating to the lease of property are included in the consolidated income statement (Note 27).

All of the Group's buildings are located in the PRC, except for property with net book amount of RMB14,003,000 (2007: RMB14,712,000) located in Hong Kong.

As at 31 December 2008, no property, plant and equipment of the Group was pledged. (2007: RMB 52,490,000, Note 22).

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2007				
Cost	22,278	20,380	1,793	44,451
Accumulated depreciation	(6,634)	(15,214)	(771)	(22,619)
Net book amount	15,644	5,166	1,022	21,832
Year ended 31 December 2007				
Opening net book amount	15,644	5,166	1,022	21,832
Additions	–	304	90	394
Disposals	–	(1)	–	(1)
Depreciation	(932)	(2,179)	(180)	(3,291)
Closing net book amount	14,712	3,290	932	18,934
At 31 December 2007				
Cost	22,278	20,683	1,883	44,844
Accumulated depreciation	(7,566)	(17,393)	(951)	(25,910)
Net book amount	14,712	3,290	932	18,934
Year ended 31 December 2008				
Opening net book amount	14,712	3,290	932	18,934
Additions	–	242	123	365
Disposals	–	(9)	–	(9)
Depreciation	(565)	(1,528)	(226)	(2,319)
Closing net book amount	14,147	1,995	829	16,971
At 31 December 2008				
Cost	22,278	20,916	2,006	45,200
Accumulated depreciation	(8,131)	(18,921)	(1,177)	(28,229)
Net book amount	14,147	1,995	829	16,971

Depreciation expense of RMB 2,319,000 (2007: RMB 3,291,000) has been charged to administrative expenses.

Lease rental expenses amounting to RMB 1,217,000 (2007: RMB 1,093,000) relating to the lease of property are including in the income statement.

7 INVESTMENT PROPERTY

Group

	2008 RMB'000	2007 RMB'000 (Restated)
At 1 January	**76,389**	35,413
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**(1,382)**	–
Transfer from property, plant and equipment (Note 6)	**14,747**	36,425
Transfer from leasehold land and land use rights (Note 8)	**573**	–
Fair value gains on investment property initially transferred from property, plant and equipment-credit to equity (Note 20)	**17,944**	4,551
Change in fair value, recognised in "other gains – net" (Note 26)	**27,155**	–
At 31 December	**135,426**	76,389

Company

	2008 RMB'000	2007 RMB'000
At 1 January	**42,385**	–
Change in fair value, recognised in "other gains – net"	**19,847**	–
Transfer from a subsidiary	**–**	42,385
At 31 December	**62,232**	42,385

Land use rights portion in investment property represent prepaid operating lease payments on leases of between 20 years to 50 years in the PRC.

The Group's investment properties are stated at fair values except for one property being stated at cost as the directors of the Company consider the fair value of this property cannot be reliably measured given the restriction of usage.

7 INVESTMENT PROPERTY *(Continued)*

Other investment properties were revalued at 31 December 2008 on an open market value basis by an independent firm of professional qualified surveyor, Yangcheng Appraisals Co., Ltd., employed by the Group. Valuations were performed using discounted cash flow projections based on estimates of future cash flows derived from the terms of any existing lease and other contracts and from external evidence such as current market rents for similar properties in the same location and condition, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The following amounts have been recognised in the income statements:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Rental income	**30,326**	28,288	**4,926**	1,752
Direct operating expenses that did not generate rental income	**1,622**	1,513	**264**	94

The future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Not later than 1 year	**18,452**	12,783	**5,638**	5,256
Later than 1 year and no later than 5 years	**65,285**	35,681	**25,640**	24,310
Later than 5 years	**182,151**	146,471	**135,193**	142,095
	265,888	194,935	**166,471**	171,661

8 LEASEHOLD LAND AND LAND USE RIGHTS-GROUP

The Group's interests in land use rights represent prepaid operating lease payments with terms between 20 to 50 years in the PRC and their net book value are analysed as follows:

	2008 RMB'000	2007 RMB'000 (Restated)
At 1 January	**120,841**	126,421
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**(20,652)**	–
Additions	**–**	191
Amortisation (Note 27)	**(2,452)**	(5,771)
Transfer to investment property (Note 7)	**(573)**	–
At 31 December	**97,164**	120,841

Amortisation expense of RMB 2,452,000 (2007: RMB 5,771,000) has been charged to administrative expenses.

9 INTANGIBLE ASSETS

Group

	Goodwill RMB'000	Patents and trademarks RMB'000	Staff quarters reform costs RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2007 (Restated)					
Cost	2,154	8,678	104,092	8,350	123,274
Accumulated amortisation	(150)	(2,373)	(77,086)	(3,406)	(83,015)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	6,305	27,006	4,944	38,255
Year ended 31 December 2007 (Restated)					
Opening net book amount	–	6,305	27,006	4,944	38,255
Additions	–	1,000	–	93	1,093
Disposals	–	–	–	(704)	(704)
Amortisation (Note 27)	–	(634)	(10,337)	(1,696)	(12,667)
Closing net book amount	–	6,671	16,669	2,637	25,977
At 31 December 2007 (Restated)					
Cost	2,154	9,678	104,092	7,739	123,663
Accumulated amortisation	(150)	(3,007)	(87,423)	(5,102)	(95,682)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	6,671	16,669	2,637	25,977
Year ended 31 December 2008					
Opening net book amount	–	6,671	16,669	2,637	25,977
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	–	(750)	(5,191)	(2,490)	(8,431)
Additions	–	6,423	–	1,166	7,589
Amortisation (Note 27)	–	(1,289)	(11,478)	(206)	(12,973)
Closing net book amount	–	11,055	–	1,107	12,162
At 31 December 2008					
Cost	2,154	14,901	75,102	2,229	94,386
Accumulated amortisation	(150)	(3,846)	(75,102)	(1,122)	(80,220)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	11,055	–	1,107	12,162

Amortisation expense of RMB 12,973,000 (2007: RMB 12,667,000) has been charged to administrative expenses in the consolidated income statement.

9 INTANGIBLE ASSETS *(Continued)*

Company

	2008 RMB'000	2007 RMB'000
Staff quarters reform costs		
At 1 January		
Cost	**2,524**	2,524
Accumulated amortisation	**(2,038)**	(1,795)
Net book amount	**486**	729
Year ended 31 December		
Opening net book amount	**486**	729
Amortisation	**(486)**	(243)
Closing net book amount	**–**	486
At 31 December		
Cost	**2,524**	2,524
Accumulated amortisation	**(2,524)**	(2,038)
Net book amount	**–**	486

Amortisation expense of RMB 486,000 (2007: RMB 243,000) has been charged to administrative expenses in the income statement.

10 INVESTMENTS IN SUBSIDIARIES-COMPANY

	2008 RMB'000	2007 RMB'000
At 1 January	**1,520,126**	1,460,126
Additions	**181,299**	60,000
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**(246,589)**	–
At 31 December	**1,454,836**	1,520,126

The Company's investments in subsidiaries, all of which are unlisted, are shown at cost. Particulars of the principal subsidiaries are set out in Note 37.

11 INVESTMENTS IN ASSOCIATES

Group

	2008 RMB'000	2007 RMB'000 (Restated)
At 1 January	**27,349**	43,316
Transfer from available-for-sale financial assets (Note 13)	**–**	8,363
Disposals	**(2,483)**	(180)
Transfer to a jointly controlled entity	**–**	(32,039)
Share of (loss)/profit of associates	**(5,171)**	7,889
At 31 December	**19,695**	27,349

As at 31 December 2008, the Group and the Company had direct or indirect interests in the following companies located in the PRC:

Name of associated companies	Particulars of registered capital	Principal activities	Interest held 2008 %	Interest held 2007 % (Restated)
(1) Directly held by the Company				
Guangzhou Jinshen Medical Co., Ltd.	RMB1,500,000	Production of health medicine	**38.25**	38.25
Guangzhou Jihua Medical Apparatus and Instruments Co., Ltd. (Note a)	RMB10,000,000	Development, manufacture and sales of medical apparatus and instruments	**–**	24.00
Golden Eagle Asset Management Co., Ltd.	RMB100,000,000	Fund management	**20.00**	20.00
(2) Indirectly held by the Company				
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	RMB1,900,000	Sales of Chinese medicine	**29.72**	29.72
Guangzhou Pharmaceutical Soccer Club Limited	RMB20,000,000	Participation of soccer competition and provision of related advertising services	**42.50**	42.50

11 INVESTMENTS IN ASSOCIATES *(Continued)*

(a) In 2008, the Group disposed of its interest in Guangzhou Jihua Medical Apparatus and Instrument Co., Ltd..

The gross assets and liabilities of the Group's associates as at 31 December 2008 and the revenues and profit/(loss) for the year then ended are as follows:

	Assets RMB'000	**Liabilities** RMB'000	**Revenues** RMB'000	**Profit/(loss)** RMB'000
Guangzhou Jinshen Medical Co., Ltd.	207	81	444	(44)
Golden Eagle Asset Management Co., Ltd.	90,476	12,891	47,000	(1,460)
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	41,653	39,773	71,276	30
Guangzhou Pharmaceutical Soccer Club Limited	14,722	4,652	45,847	(9,494)
	147,058	57,397	164,567	(10,968)

The gross assets and liabilities of the Group's associates as at 31 December 2007 and the revenues and profit for the year then ended are as follows:

	Assets RMB'000	**Liabilities** RMB'000	**Revenues** RMB'000	**Profit** RMB'000
Guangzhou Jinshen Medical Co., Ltd.	257	88	426	29
Guangzhou Jihua Medical Apparatus and Instruments Co., Ltd.	15,791	5,447	13,232	1,525
Golden Eagle Asset Management Co., Ltd.	83,492	4,316	68,946	37,175
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	24,234	22,425	51,858	84
Guangzhou Pharmaceutical Soccer Club Limited	24,518	4,511	53,792	97
	148,292	36,787	188,254	38,910

11 INVESTMENTS IN ASSOCIATES *(Continued)*

Company

	2008 RMB'000	2007 RMB'000
Investments in associates		
–Unlisted equity securities, at cost	**15,565**	17,928

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

As at 31 December 2008, the Group and the Company had direct or indirect interests in the following companies located in the PRC:

Name of jointly controlled entities	Particulars of registered capital	Principal activities	Interest held 2008 %	Interest held 2007 % (Restated)
(1) Directly held by the Company				
Guangzhou Wao Lao Ji Pharmaceutical Co., Ltd.	RMB204,756,878	Production of CPM	**48.05**	48.05
Guangzhou Pharmaceutical Corporation Limited (Note 1)	RMB400,000,000	Trading of western pharmaceutical products and medical apparatus	**50.00**	84.39
(2) Indirectly held by the Company				
Guangzhou Nuo Cheng Bio-product Co., Ltd. (Note a)	RMB84,000,000	Production and sale of bio-products	**50.00**	50.00

(a) In 2008, the registered capital of Guangzhou Nuo Cheng Bio-product Co., Ltd. was increased by RMB20,000,000, which was fulfilled by cash contribution from the existing equity holders.

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The following amounts represent the Group's share of assets, liabilities, and results of these jointly controlled entities:

	2008 RMB'000	2007 RMB'000
Assets:		
Non-current assets	**182,327**	108,560
Current assets	**1,861,807**	202,486
	2,044,134	311,046
Liabilities:		
Non-current liabilities	**8,810**	3,103
Current liabilities	**1,247,744**	59,900
	1,256,554	63,003
Net assets	**787,580**	248,043
Results:		
Revenue	**5,546,639**	469,196
Expenses	**(5,435,099)**	(421,020)
Profit after income tax	**111,540**	48,176
Proportionate interest in jointly controlled entities' commitments	**1,500**	2,935

There are no contingent liabilities relating to the Group's investments in these jointly controlled entities, and no contingent liabilities of these entities themselves.

Company

	2008 RMB'000	2007 RMB'000
Investments in jointly controlled entities:		
–Unlisted equity securities, at cost	**324,752**	102,035

Notes to the consolidated financial statements

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
At 1 January	**17,223**	30,098	**10,925**	27,288
Additions	**3,500**	–	**3,500**	–
Transfer to investment in associates (Note 11)	**–**	(8,363)	**–**	(8,363)
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**(1,529)**	–	**–**	–
Disposals	**–**	(8,000)	**–**	(8,000)
Net (losses)/gains recognised in equity (Note a)	**(2,898)**	5,219	**–**	–
Impairment charge	**(24)**	(1,731)	**–**	–
At 31 December	**16,272**	17,223	**14,425**	10,925

(a) Fair value change in available-for-sale financial assets has a net impact on equity amounting to RMB 2,126,000 (Note 20) with the gross amount of RMB 2,898,000 netting off the relevant deferred tax liabilities amounting to RMB 772,000.

Available-for-sale financial assets includes:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Listed securities				
– Bank of Communications	**1,255**	5,666	**–**	–
Unlisted securities				
– China Everbright Bank Company Limited	**10,725**	10,725	**10,725**	10,725
– Guangdong Southern China Advanced Pharmaceutical Co., Ltd	**3,500**	–	**3,500**	–
– Others	**792**	832	**200**	200
	16,272	17,223	**14,425**	10,925

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

The fair values of listed securities are determined based on market price.

The fair values of unlisted securities of China Everbright Bank Company Limited are valued by a qualified independent valuer with valuation technique.

The fair values of other unlisted securities approximate to their carrying amount.

Impairment charge, recognised due to the decline in fair value of financial assets below their carrying amounts, has been charged to the consolidated income statement. The Group's and the Company's available-for-sale financial assets are not more than 10% of the Group's and the Company's total assets.

14 INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Raw materials	**146,391**	146,956	**–**	–
Work in progress	**109,988**	81,248	**–**	–
Finished goods	**151,627**	167,965	**–**	–
Merchandise	**242,984**	994,714	**10,177**	14,475
Production supplies	**587**	2,518	**–**	–
Less: provision	**(18,518)**	(15,788)	**(42)**	(31)
	633,059	1,377,613	**10,135**	14,444

The cost of inventories recognised as expense and included in "cost of goods sold" amounted to RMB 2,456,564,000 (2007: RMB 10,098,693,000).

During the year ended 31 December 2008, the Group recognised impairment charge amounting to RMB 11,300,000 (2007: RMB 12,620,000) based on the shortfall of estimated net realisable value as compared to net book value of inventories. The amount has been charged to the consolidated income statement.

During the year ended 31 December 2008, the Group reversed inventory write-down amounting to RMB1,356,000 (2007: Nil). The amount reversed was recognised in the consolidated income statement.

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Trade receivables (Note a)	**512,640**	1,691,413	**69,238**	63,426
Less: provision for impairment of trade receivables (Note b)	**(54,669)**	(50,957)	**(588)**	(511)
Trade receivables – net	**457,971**	1,640,456	**68,650**	62,915
Bills receivable (Note c)	**156,650**	518,342	**–**	611
Prepayments	**56,473**	165,955	**1,903**	2,621
Other receivables	**47,972**	52,259	**2,005**	58,610
Loans to a jointly controlled entity (Notes d and 36)	**150,000**	–	**150,000**	–
Loans to subsidiaries (Note e)	**–**	–	**382,946**	605,712
	869,066	2,377,012	**605,504**	730,469

The carrying amounts of trade and other receivables of the Group and the Company approximate their fair values.

Except for an aggregate amount of RMB 9,252,000 (2007: RMB12,789,000) dominated in US dollars and HK dollars, all trade and other receivable are dominated in RMB.

No trade receivables were discounted by the companies in the Group to banks in the PRC with recourse at 31 December 2008 (2007: RMB 24,818,000 and the corresponding collateralised borrowings were included in short-term bank borrowings).

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers widely dispersed within the PRC.

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables generated from credit sales generally have credit terms within 6 months. The ageing analysis of trade receivables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 6 months	**415,753**	1,600,944	**67,540**	62,204
6 months to 1 year	**36,907**	43,923	**1,695**	1,168
Over 1 year	**59,980**	46,546	**3**	54
	512,640	1,691,413	**69,238**	63,426

The credit quality of the trade receivables:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Neither past due nor impaired:				
Existing customers without history of defaults	**415,753**	1,600,944	**67,540**	62,204
Past due but not impaired:				
Less than 1 year	**32,402**	23,954	**1,110**	711
Over 1 year	**9,816**	15,558	**–**	–
	42,218	39,512	**1,110**	711
Past due and impaired:				
Less than 1 year	**4,505**	19,969	**585**	457
Over 1 year	**50,164**	30,988	**3**	54
	54,669	50,957	**588**	511
Total trade receivable	**512,640**	1,691,413	**69,238**	63,426

Trade receivables past due but not impaired relate to a number of customers for whom there is no recent history of default. No impairment loss was provided.

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Movements on provision for impairment of receivables are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
At 1 January	**50,957**	45,362	**511**	262
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**(14,626)**	–	**–**	–
Impairment charge	**26,906**	9,676	**77**	249
Receivables written off	**(8,568)**	(4,081)	**–**	–
At 31 December	**54,669**	50,957	**588**	511

The provision for impaired receivables has been charged to the consolidated income statement.

The other classes within trade and other receivables do not contain significant impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

(c) Bills receivables are mostly bank notes receivable. These bank notes receivable are accepted by state-owned banks with high credit ratings.

(d) Loans are entrusted loans to a jointly controlled entity with effective interest rate of 3.61%. The loans are denominated in RMB and the carrying amounts approximate their fair values.

(e) The loans to subsidiaries are denominated in RMB and repayable within 1 year. Interest rate ranges from 4.68% to 6.73% per annum. The carrying amount of the loans to subsidiaries approximate to its fair value.

16 TAX RECOVERABLE

It is prepaid income tax of certain subsidiaries of the Group and can be deducted/refunded in 2008 annual tax filing.

17 RESTRICTED CASH

The restricted cash was deposits to banks for issuing the letters of credit in favor of the Group and was denominated in RMB.

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Cash at bank and in hand	**345,859**	543,846	**158,747**	68,150
Short-term deposits	**20,000**	41,200	**–**	–
	365,859	585,046	**158,747**	68,150

Except for an aggregate amount of RMB 4,556,000 (2007: 11,667,000) in US dollars and HK dollars, all cash and cash equivalents are dominated in RMB.

Cash at bank earned interests at floating rates based on daily bank deposit balances. As at 31 December 2008, maturity of short-term deposits varied from seven days to three months, depending on the cash requirements of the Group. Bank deposits earned interests at the short-term deposit rates, the effective interest rate of which ranges from 1.35% to 1.71% (2007: 1.71% to 3.33%).

All cash and cash equivalents are deposited in state-owned banks with high credit ratings. Management believes that the credit risk on cash and cash equivalents is remote.

19 SHARE CAPITAL AND PREMIUM

	As at 31 December 2007		Conversion		As at 31 December 2008	
	No. of shares	**Amount**	**No. of shares**	**Amount**	**No. of shares**	**Amount**
	(thousands)	RMB'000	(thousands)	RMB'000	(thousands)	RMB'000
Share capital registered, issued and fully paid of RMB1 each						
Circulating state shares subject to exchange restrictions	428,059	428,059	(40,545)	(40,545)	387,514	387,514
H shares	219,900	219,900	–	–	219,900	219,900
A shares	162,941	162,941	40,545	40,545	203,486	203,486
	810,900	810,900	–	–	810,900	810,900
Share premium on issue of shares net of issuing expenses		781,134				781,134
Total		1,592,034				1,592,034

On 24 April 2008, 40,545,000 circulating state shares subject to exchange restrictions were converted to A shares.

20 OTHER RESERVES

Group

		Surplus reserves					
	Capital reserve (Note a)	Statutory surplus reserve (Note b)	Discre-tionary surplus reserve (Note b)	Investment property	Available-for-sale financial assets	Asset revaluation surplus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	338,921	483,074	164,989	13,116	–	85,386	1,085,486
Revaluation – gross (Note 13)	–	–	–	–	5,219	–	5,219
Revaluation – tax (Note 23)	–	–	–	–	(915)	–	(915)
Revaluation – jointly controlled entity	–	–	–	–	3,216	–	3,216
Revaluation of investment properties upon initial recognition – gross (Note 7)	–	–	–	4,551	–	–	4,551
Revaluation of investment properties upon initial recognition – tax (Note 23)	–	–	–	(3,658)	–	–	(3,658)
Decrease in deferred tax liabilities resulting from change in income tax rate (Note 23)	–	–	–	–	–	9,992	9,992
Depreciation transfer on asset revaluation during reorganisation – gross	–	–	–	–	–	(3,471)	(3,471)
Depreciation transfer on asset revaluation during reorganisation – tax	–	–	–	–	–	652	652
Transfer of reserves according to new Chinese Accounting Standards("CAS")	–	(114,351)	15,062	–	–	–	(99,289)
Impact of capital injection from minority interest	–	(31,810)	–	–	–	–	(31,810)
Appropriation to surplus reserves	–	67,171	23,738	–	–	–	90,909
Others	446	–	–	–	–	–	446
At 31 December 2007	339,367	404,084	203,789	14,009	7,520	92,559	1,061,328

20 OTHER RESERVES *(Continued)*

Group

	Capital reserve (Note a)	Surplus reserves: Statutory surplus reserve (Note b)	Surplus reserves: Discretionary surplus reserve (Note b)	Investment property	Available-for-sale financial assets	Asset revaluation surplus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	339,367	404,084	203,789	14,009	7,520	92,559	1,061,328
Revaluation – gross (Note 13)	–	–	–	–	(2,898)	–	(2,898)
Revaluation – tax (Note 23)	–	–	–	–	772	–	772
Revaluation – jointly controlled entity	–	–	–	–	(1,629)	–	(1,629)
Revaluation of investment properties upon initial recognition – gross (Note 7)	–	–	–	17,944	–	–	17,944
Revaluation of investment properties upon initial recognition – tax (Note 23)	–	–	–	(4,486)	–	–	(4,486)
Depreciation transfer on asset revaluation during reorganisation – gross	–	–	–	–	–	(4,967)	(4,967)
Depreciation transfer on asset revaluation during reorganisation – tax	–	–	–	–	–	1,242	1,242
Disposal of a associate	(68)	–	–	–	–	–	(68)
Acquisition of interests in subsidiaries from minority interest	(13,628)	–	–	–	–	–	(13,628)
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution)	–	(126,183)	–	–	–	–	(126,183)
Appropriation to surplus reserves	–	56,617	–	–	–	–	56,617
Others	446	–	–	–	–	–	446
At 31 December 2008	326,117	334,518	203,789	27,467	3,765	88,834	984,490

20 OTHER RESERVES *(Continued)*

Company

	Capital reserve (Note a)	Statutory surplus reserve (Note b)	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2007	398,124	206,326	604,450
Transfer of reserves according to new Chinese Accounting Standards ("CAS")	–	(89,415)	(89,415)
Appropriation to surplus reserves	–	31,623	31,623
Others	100	–	100
At 31 December 2007	398,224	148,534	546,758
At 1 January 2008	398,224	148,534	546,758
Appropriation to surplus reserves	–	56,617	56,617
Others	100	–	100
At 31 December 2008	398,324	205,151	603,475

(a) Capital reserve

Upon approval from the Board of Directors, capital reserve, other than those relating to receipts of donated non-cash assets and equity investments held, can be used to increase capital. Capital reserve arising from receipts of donated non-cash assets and equity investments can only be used to increase capital after the donated assets or investments have been disposed of.

20 OTHER RESERVES *(Continued)*

(b) Surplus reserves

(i) Statutory surplus reserve

In accordance with the PRC regulations and the Articles of Association of the entities of the Group, before distributing the profit of each year, the entities of the Group are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve, except where the reserve has reached 50% of the entities' share capital. The statutory surplus reserve can be utilised to offset prior year's losses or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Discretionary surplus reserve

In accordance with relevant PRC regulations and subject to approval by shareholders in general meeting, discretionary surplus reserve fund can be used to reduce any losses incurred or to increase share capital.

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Trade payables	**335,668**	1,568,686	**32,543**	35,910
Payroll and welfare payables	**69,165**	86,594	**5,561**	5,110
Government grant	**62,523**	56,978	**–**	–
Payables for equipments and construction in progress	**39,679**	5,362	**–**	–
Deposits received	**22,151**	23,290	**975**	902
Advances from customers	**18,036**	35,873	**2,094**	308
Accruals	**38,941**	40,420	**5,562**	5,481
Others	**42,763**	37,710	**4,120**	16,033
	628,926	1,854,913	**50,855**	63,744

21 TRADE AND OTHER PAYABLES *(Continued)*

The ageing analysis of trade payables as at 31 December 2008 and 2007 was as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Within 3 months	**276,068**	1,301,181	**30,947**	35,171
3 months to 1 year	**36,922**	234,562	**1,585**	739
1 year to 2 years	**17,447**	20,543	**11**	–
Over 2 years	**5,231**	12,400	**–**	–
	335,668	1,568,686	**32,543**	35,910

The carrying amounts of trade and other payables of the Group and the Company approximate their fair values.

Except for an aggregate amount of RMB 13,780,000 (2007: RMB17,346,000)dominated in US dollars and HK dollars, all trade and other payables are dominated in RMB.

22 BORROWINGS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Non-current				
Bank borrowings-unsecured	**30,000**	–	**–**	–
Current				
Bank borrowings-secured	**–**	25,000	**–**	–
Bank borrowings-unsecured	**213,275**	913,402	**–**	–
Loans from a jointly controlled entity	**30,000**	30,000	**30,000**	30,000
Loans from a subsidiary	**–**	–	**20,000**	20,000
	243,275	968,402	**50,000**	50,000
Total borrowings	**273,275**	968,402	**50,000**	50,000

As at 31 December 2008, all bank borrowings are unsecured. As at 31 December 2007, bank borrowings of RMB 25,000,000 were secured by property, plant and equipment of the Group with carrying value of RMB 52,490,000 (Note 6).

22 BORROWINGS *(Continued)*

As 31 December 2008, the borrowings were repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 1 year	**243,275**	968,402	**50,000**	50,000
Between 1 and 2 years	**30,000**	–	**–**	–
	273,275	968,402	**50,000**	50,000

The effective interest rates at the balance sheet date were as follows:

	2008	2007
Current borrowings	**5.77%**	5.58%
Non-current borrowings	**7.56%**	–

All bank borrowings bear interests at prevailing market rates.

The fair value of the non-current borrowing approximates its carrying amount. The fair value is based on cash flows discounted using a rate based on the borrowing rate of 7.56% (2007: None).

The carrying amounts of current borrowings approximate their fair values.

All the borrowings are denominated in RMB.

The Group has the following undrawn borrowing facilities:

	2008	2007
	RMB'000	RMB'000
		(Restated)
Floating rate		
– expiring within one year	**55,780**	20,673

23 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. As at 31 December 2008, the Group did not have such offset amount (2007: Nil) and the amounts shown in the balance sheets are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Deferred income tax assets:				
– Deferred income tax assets to be recovered within 12 months	**18,197**	28,606	**949**	1,283
– Deferred income tax assets to be recovered after more than 12 months	**29,025**	23,441	**1,073**	254
	47,222	52,047	**2,022**	1,537

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Deferred income tax liabilities:				
– Deferred income tax liabilities to be settled within 12 months	**1,242**	652	**207**	–
– Deferred income tax liabilities to be settled after more than 12 months	**45,717**	35,165	**6,112**	–
	46,959	35,817	**6,319**	–

23 DEFERRED INCOME TAX *(Continued)*

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
At 1 January	**16,230**	22,768	**1,537**	4,687
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**(6,687)**	–	**–**	–
Recognised in the income statement (Note 30)	**(5,566)**	(11,957)	**(5,834)**	(3,150)
Recognised in equity	**(3,714)**	5,419	**–**	–
At 31 December	**263**	16,230	**(4,297)**	1,537

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred income tax assets:

Group

	Impairment loss RMB'000	Employee benefits RMB'000	Accruals RMB'000	Unrealised profit RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007 (Restated)	15,980	15,993	2,552	14,071	5,522	10,520	64,638
Credited/(charged) to consolidated income statement	(1,425)	(6,658)	2,777	1,861	(5,522)	(3,624)	(12,591)
At 31 December 2007 (Restated)	14,555	9,335	5,329	15,932	–	6,896	52,047
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	(3,656)	(1,606)	(922)	–	–	(1,276)	(7,460)
Credited/(charged) to consolidated income statement	3,402	(1,970)	83	(5,838)	6,764	194	2,635
At 31 December 2008	14,301	5,759	4,490	10,094	6,764	5,814	47,222

23 DEFERRED INCOME TAX *(Continued)*

Company

	Impairment loss RMB'000	Employee benefits RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	3,424	70	805	388	4,687
Credited/(charged) to income statement	(3,210)	(22)	29	53	(3,150)
At 31 December 2007	214	48	834	441	1,537
Credited/(charged) to income statement	(3)	(9)	115	382	485
At 31 December 2008	211	39	949	823	2,022

Deferred income tax liabilities:

Group

	Investment property RMB'000	Property, plant, and equipment revaluation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007 (Restated)	–	41,870	–	41,870
Charged/(credited) to equity (Note 20)	3,658	(9,992)	915	(5,419)
Charged/(credited) to consolidated income statement	–	(652)	18	(634)
At 31 December 2007	3,658	31,226	933	35,817
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	(773)	–	–	(773)
Charged/(credited) to equity (Note 20)	4,486	–	(772)	3,714
Charged/(credited) to consolidated income statement	8,292	(1,242)	1,151	8,201
At 31 December 2008	15,663	29,984	1,312	46,959

23 DEFERRED INCOME TAX *(Continued)*

Company

	Investment property RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	–	–	–
Charged to income statement	5,169	1,150	6,319
At 31 December 2008	5,169	1,150	6,319

In accordance with the PRC tax laws or other tax regulations applicable to those companies in their respective jurisdictions, tax losses could be carried forward to offset against future taxable income. The Group did not recognise deferred tax assets of RMB 32,977,000 (2007: RMB 33,920,000) in respect of tax losses amounting to RMB 131,908,000 (2007: RMB 135,678,000), as management believes it is more likely than not that such tax losses would not be realised before they expire.

Losses to expire are shown as below:

Year	RMB'000
2009	9,315
2010	17,303
2011	25,464
2012	51,506
2013	28,320
	131,908

24 EMPLOYEE BENEFITS – GROUP

	2008 RMB'000	2007 RMB'000 (Restated)
Medical insurance scheme	**36,268**	50,886
Less: Current portion included in other payables	**(11,144)**	(11,271)
	25,124	39,615

25 OTHER OPERATING INCOME

	2008 RMB'000	2007 RMB'000 (Restated)
Rental income	**52,859**	40,915
Government grants	**18,402**	9,409
License fee income (Note 36)	**11,555**	8,751
Income from material sales	**3,102**	638
Consulting income	**792**	4,231
Others	**8,513**	9,438
	95,223	73,382

26 OTHER GAINS-NET

	2008 RMB'000	2007 RMB'000 (Restated)
Gains on dilution of interest in a subsidiary (Note a)	**47,559**	28,833
Gains on disposal of interest in subsidiaries (Note a)	**16,409**	–
Fair value gain from investment property revaluation (Note 7)	**27,155**	–
Waived liabilities	**7,099**	6,495
Gains on disposals of investment in an associate	**3,255**	–
Gains on disposals of available-for-sale financial assets	**–**	3,097
Compensation on the removal of building/factory from government	**–**	951
Fair value loss from financial assets at fair value through profit or loss	**(2,503)**	–
Loss on disposals of property, plant and equipment	**(813)**	(1,649)
Others	**1,985**	(4,388)
	100,146	33,339

(a) Item represented gain arising from dilution and disposal of equity interest in GPC Limited (Note 1). The Group recognised dilution gain amounting to RMB28,833,000 in 2007 when Alliance BMP Limited (the "Joint Venture Partner") contributed cash of GBP6,770,000 (equivalent to approximately RMB100,860,000) into GPC Limited for acquiring 13.82% equity interest in GPC Limited. In January 2008, the Group recognised dilution and disposal gain amounting to RMB64,023,000 when the Joint Venture Partner contributed cash of GBP26,810,000 (equivalent to approximately RMB384,229,000) into GPC Limited and paid RMB47,385,000 to the Group for acquiring another 36.18% equity interest in GPC Limited.

27 EXPENSES BY NATURE

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

	2008 RMB'000	2007 RMB'000 (Restated)
Depreciation and amortisation (Notes 6, 8 and 9)	**119,492**	122,661
Impairment charge of property, plant, and equipment (Note 6)	**–**	44
Impairment charge of receivables	**26,906**	9,676
Impairment charge of inventories, net	**9,944**	12,620
Research and development expenses	**52,322**	43,076
Transportation	**29,231**	54,410
Advertising costs	**159,612**	237,066
Changes in finished goods and work in progress	**(10,107)**	(39,077)
Raw materials and consumables used	**828,916**	1,407,747
Changes in merchandise	**(3,228)**	(55,342)
Merchandise purchased	**1,477,027**	8,530,702
Auditors' remuneration	**3,980**	3,980
Operating leases for buildings (Note 6)	**28,346**	38,591
Outsource labor cost	**136,850**	146,285
Employee benefit expenses (including directors' and supervisors' emoluments) (Note 28)	**499,127**	628,782
Other expenses	**166,996**	377,275
Total cost of goods sold, selling and marketing costs and administrative expenses	**3,525,414**	11,518,496

28 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses (including directors' and supervisors' emoluments) are analysed as follows:

	2008 RMB'000	2007 RMB'000 (Restated)
Pension cost	**65,172**	64,592
Housing fund	**34,881**	43,323
Medical insurance	**31,547**	45,592
Salaries, wages and other staff benefits	**367,527**	475,275
	499,127	628,782

28 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2008 is set out below:

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of director					
Yang Rongming	–	–	–	–	–
Shi Shaobin	–	267	212	–	479
Feng Zansheng	–	–	–	–	–
Wong Hin Wing	80	–	–	–	80
Liu Jinxiang	80	–	–	–	80
Li Shanmin	80	–	–	–	80
Zhang Yonghua	80	–	–	–	80
Name of supervisor					
Yang Xiuwei	–	–	–	–	–
Wu Quan	–	188	130	–	318
Zhong Yugan	–	30	–	–	30

The remuneration of every director and supervisor for the year ended 31 December 2007 is set out below:

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of director					
Yang Rongming	–	–	–	–	–
Shi Shaobin	–	7	92	–	99
Feng Zansheng	–	176	469	–	645
Wong Hin Wing	80	–	–	–	80
Liu Jinxiang	43	–	–	–	43
Li Shanmin	43	–	–	–	43
Zhang Yonghua	43	–	–	–	43
Wu Zhang	40	–	–	–	40
Zhang Heyong	40	–	–	–	40
Name of supervisor					
Yang Xiuwei	–	–	–	–	–
Wu Quan	–	104	30	38	172
Zhong Yugan	–	30	–	–	30
Chen Chanying	–	101	–	–	101
Ouyang Qiang	–	105	–	–	105

28 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Directors' and supervisors' emoluments *(Continued)*

In addition to the directors' and supervisors' emoluments disclosed above, director Yang Rongming and supervisor Yang Xiuwei receive emoluments from the Company's holding company, amounting to RMB 700,000 and RMB 584,000 (2007: RMB 419,000 and RMB 236,000), director Shi Shaobin and Feng Zansheng receive emoluments from the Company's two jointly controlled entities, amounting to RMB 241,000 and RMB 752,000 (2007: RMB 428,000 and Nil), part of which are in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's holding company and jointly controlled entities.

During 2008, no director or supervisor of the Company (1) received any emolument from the Group as an inducement to join or upon joining the Group; or (2) received any compensation for loss of office as a director or management of any member of the Group; or (3) waived or agreed to waive any emoluments. (2007: Nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 1 (2007: 1) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining 4 (2007: 4) individuals during the year are as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries and allowances	**694**	804
Bonuses	**881**	977
	1,575	1,781

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
Nil – RMB1,000,000	**4**	4

Notes to the consolidated financial statements

29 FINANCE COSTS – NET

	2008 RMB'000	2007 RMB'000 (Restated)
Interest expense on borrowings	**10,197**	57,216
Other incidental borrowing costs	**8,987**	10,666
Finance costs	**19,184**	67,882
Less: Finance income		
– Interest income on short-term bank deposits	**(3,724)**	(6,053)
– Interest income on loan to a jointly controlled entity (Note 36)	**(7,646)**	–
Finance costs – net	**7,814**	61,829

30 INCOME TAX EXPENSE

Taxation on the PRC profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

	2008 RMB'000	2007 RMB'000 (Restated)
Current income tax	**31,690**	107,902
Deferred income tax (Note 23)	**5,566**	11,957
	37,256	119,859

30 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the principal rate of the PRC enterprise income tax as follows:

	2008	2007
	RMB'000	RMB'000
		(Restated)
Profit before income tax	**208,552**	449,710
Tax calculated at a tax rate of 25% (2007: 33%)	**52,138**	148,404
Effect of different rates applicable to subsidiaries	**(933)**	(41,764)
Re-measurement of deferred tax – change in tax rate	**2,201**	14,359
Income (dilution gain) not subject to tax	**(12,462)**	–
Associates results reported net of tax	**1,293**	(2,407)
Jointly controlled entities results reported net of tax	**(27,885)**	(17,483)
Tax losses for which no deferred income tax asset was recognised	**9,623**	16,255
Utilisation of previously unrecognised tax losses	**(2,326)**	(9,905)
Expenses not deductible for tax purposes	**15,607**	12,400
Taxation charge	**37,256**	119,859

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 entities within the Group is 25% from 1 January 2008.

The weighted average tax rate was 18% (2007: 27%). The decrease is primarily due to dilution gain is not subject to tax, more contribution from a new jointly controlled entity reported net of tax in 2008 and reduction in tax rate following the implementation of new CIT law.

The PRC enterprise income tax has been provided at the principal rate of 25% (2007: 33%) on the estimated assessable profit for the year, except for a jointly controlled entity which is a foreign investment production enterprise and six subsidiaries which are qualified as Guangdong New/High Technology Enterprise ("NHTE"). The applicable tax rate of the jointly controlled entity is 25% 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. In 2008, the effective tax rate for this jointly controlled entity is 12.5%. The applicable enterprise income tax rate for the six subsidiaries qualified as NHTE is 15%, from 2008 to 2010 if these subsidiaries could continue to meet the NHTE criteria.

31 RETAINED EARNINGS AND PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	2008 RMB'000	2007 RMB'000
At 1 January	**369,036**	216,866
Profit for the year	**218,020**	162,594
Dividend relating to 2007/2006	**(100,552)**	(68,116)
Transfer from other reserve according to new CAS (Note 20)	**–**	89,415
Appropriation to surplus reserves (Note 20)	**(56,617)**	(31,623)
Others	**(100)**	(100)
At 31 December	**429,787**	369,036

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB 218,020,000 (2007: RMB162,594,000).

32 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2008 is based on the profit attributable to shareholders of the Company of RMB 181,829,000 (2007: RMB320,343,000) and the 810,900,000 (2007: 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 2008 and 2007.

33 DIVIDENDS

	2008 RMB'000	2007 RMB'000
Proposed final dividend of RMB0.04 (2007: RMB0.124) per ordinary share	**32,436**	100,552

At a meeting held on 27 March 2009, the directors declared a final dividend of RMB0.04 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 2009.

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

34 CASH GENERATED FROM OPERATIONS

	2008 RMB'000	2007 RMB'000 (Restated)
Profit for the year	**171,296**	329,851
Adjustments for:		
– Income tax expense (Note 30)	**37,256**	119,859
– Depreciation (Note 6)	**104,067**	104,223
– Amortisation (Notes 8 and 9)	**15,425**	18,438
– Impairment charges (Note 27)	**36,850**	22,340
– Loss on disposal of property, plant and equipment (Note a)	**813**	1,649
– Interest income (Note 29)	**(11,370)**	(6,053)
– Gains on dilution of interest in a subsidiary (Note 26)	**(47,559)**	(28,833)
– Gains on disposal of interest in subsidiaries (Notes 26 and b)	**(16,409)**	–
– Dividend income from available-for-sale financial assets	**(1,034)**	(69)
– Gain on disposal of available-for-sale financial assets (Note 26)	**–**	(3,097)
– Interest expense on borrowing (Note 29)	**10,197**	57,216
– Share of losses/(gains) of associates (Note 11)	**5,171**	(7,889)
– Share of (gains)/losses of jointly controlled entities (Note 12)	**(111,540)**	(48,176)
– Fair value gain from investment property revaluation (Note 26)	**(27,155)**	–
– Waived liabilities (Note 26)	**(7,099)**	(6,495)
– Fair value loss from financial assets at fair value through profit or loss (Note 26)	**2,503**	–
	161,412	552,964
Changes in working capital:		
– Restricted cash	**18,465**	(33,740)
– Inventories	**(7,564)**	(92,275)
– Trade and other receivables	**(218,183)**	(473,831)
– Trade and other payables	**150,790**	433,504
Cash generated from operations	**104,920**	386,622

Notes to the consolidated financial statements

34 CASH GENERATED FROM OPERATIONS *(Continued)*

(a) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2008	2007
	RMB'000	RMB'000
		(Restated)
Net book amount (Note 6)	**3,115**	3,764
Loss on disposal of property, plant and equipment	**(813)**	(1,649)
Proceeds from disposal of property, plant and equipment	**2,302**	2,115

(b) Disposal of subsidiaries

	GPC Limited (Note 1)	**Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. (Note 37)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Property, plant and equipment	125,883	–	125,883
Investment property	1,382	–	1,382
Leasehold land and land use rights	20,652	–	20,652
Intangible assets	8,431	–	8,431
Available-for-sale financial assets	1,529	–	1,529
Deferred income tax assets	7,460	–	7,460
Inventories	760,978	–	760,978
Trade and other receivables	1,736,347	–	1,736,347
Cash and bank balances	289,573	5,772	295,345
Deferred income tax liabilities	(773)	–	(773)
Employee benefits	(4,983)	–	(4,983)
Trade and other payables	(1,523,855)	–	(1,523,855)
Dividend payables	(85,182)	–	(85,182)
Current income tax liabilities	(7,612)	–	(7,612)
Borrowings	(797,744)	–	(797,744)
Net assets disposed of	532,086	5,772	537,858
Less: minority interest disposed of	(12,337)	–	(12,337)
	519,749	5,772	525,521

34 CASH GENERATED FROM OPERATIONS *(Continued)*

(b) Disposal of subsidiaries *(Continued)*

	GPC Limited (Note 1) RMB'000	Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. (Note 37) RMB'000	Total RMB'000
Share of interest disposed of	5.95%	51%	
Share of the net assets disposed of	30,921	2,944	33,865
Proceed from disposal	(47,385)	(2,889)	(50,274)
(Gain)/loss on the disposal	(16,464)	55	(16,409)

The net cash flow on disposal of the subsidiary is as follows:

	GPC Limited (Note 1) RMB'000	Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. (Note 37) RMB'000	Total RMB'000
Proceed from the disposal	47,385	2,889	50,274
Less: cash and bank balances in the subsidiary disposed of	(289,573)	(5,772)	(295,345)
Net cash outflow on disposal of the subsidiary	(242,188)	(2,883)	(245,071)

There were no disposals of subsidiaries during the year ended 31 December 2007 and accordingly, no comparative information is presented.

35 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	Group	
	2008 RMB'000	2007 RMB'000 (Restated)
Property, plant and equipment		
– Contracted but not provided for	**34,319**	36,465
– Authorised but not contracted for	**–**	5,386
	34,319	41,851

35 COMMITMENTS *(Continued)*

(b) Commitments under operating leases

At 31 December 2008, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2008 **RMB'000**	2007 RMB'000 (Restated)	**2008** **RMB'000**	2007 RMB'000
Not later than 1 year	**22,703**	46,031	**–**	1,324
Later than 1 year and not later than 5 years	**52,600**	31,079	**–**	2,745
Later than 5 years	**1,518**	30,001	**–**	–
	76,821	107,111	**–**	4,069

36 SIGNIFICANT RELATED-PARTY TRANSACTIONS

The directors regard Guangzhou Pharmaceutical Holdings Limited ("GZPHL"), a PRC state-owned enterprise under the control and supervision of the Guangzhou Municipal Government, being the ultimate holding company.

Save as disclosed elsewhere in the consolidated financial statements, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

(1) Sales/Purchase of goods and services

	Note	**2008** **RMB'000**	2007 RMB'000 (Restated)
Ultimate holding company			
License fee expenses	a	**3,330**	11,196
Service fee expenses	b	**–**	907
Welfare facilities fee expenses	c	**392**	380
Rental expenses	d	**2,803**	2,643
		6,525	15,126
Jointly controlled entities			
Sales of goods	e	**295,876**	89,294
Purchases of goods	e	**89,109**	110,509
License fee income	f	**11,555**	8,751
		396,540	208,554

36 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(1) Sales/Purchase of goods and services *(Continued)*

	Note	2008 RMB'000	2007 RMB'000 (Restated)
Associates			
Advertising expenses	g	**20,920**	25,460
Subsidiaries of GZPHL and its related entities			
Sales of goods	e	**152,249**	119,888
Purchases of goods	e	**204,027**	458,474
		356,276	578,362
Other state-controlled entities	h		
Sales of goods	e	**137,960**	2,923,713
Purchases of goods	e	**89,846**	1,378,308
Purchases of machinery and equipment	e	**1,131**	401
Service fee expenses	i	**38,042**	92,697
		266,979	4,395,119

(a) Pursuant to the Trademark License Agreement entered into by the Company and GZPHL, its ultimate holding company, on 1 September 1997 and its supplementary agreement dated 28 July 2005, GZPHL has granted the Company and its subsidiaries, an exclusive right to use trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries.

(b) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1 September 1997 and a supplemental notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement expired on 31 December 2007.

36 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(1) Sales/Purchase of goods and services *(Continued)*

(c) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL's total depreciation charges of the welfare facilities for the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement expired on 31 December 2007.

Pursuant to a new Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, GZPHL provides the rental services for welfare facilities to the Group, the charges of which increase by 10% based on the charges of previous year. The new agreement will expire on 31 December 2010.

(d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 6 February 2004, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three and a half years at a fixed annual rent which is subject to the adjustment of standard rent as prescribed from time to time by Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement expired on 31 August 2007.

Pursuant to a new Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, the abovementioned agreement was extended to 31 December 2007. From 1 January 2008, GZPHL charges the Group for the usage of these premises based on the new rentals set forth in the new agreement, which are not subject to adjustment during the agreement period. The new agreement will expire on 31 December 2010.

(e) The sales and purchase transactions with the jointly controlled entities, subsidiaries of GZPHL and its related entities and other state-owned entities were at terms similar to those transactions with other third parties.

(f) Pursuant to the Trademark License Agreement entered into by a jointly controlled entity of the Company and GZPHL, and two supplementary agreements amongst the jointly controlled entity, the Company and GZPHL dated 8 November 2004 and 28 July 2005 respectively, GZPHL has granted the jointly controlled entity an exclusive right to use 13 trademarks owned by GZPHL. The jointly controlled entity agreed to pay a license fee for the use of the trademarks at 2.1% of the aggregate net sales of the jointly controlled entity. The Company is entitled to 47% of the license fee pursuant to the tri-parties agreements.

(g) An associated company named Guangzhou Pharmaceutical Soccer Club Limited provided advertising services related to soccer events to some companies within the Group. Such services were rendered under terms agreed by both parties.

36 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(1) Sales/Purchase of goods and services *(Continued)*

(h) GZPHL, the ultimate holding company, is a state-controlled entity directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. Stated-controlled enterprises and their subsidiaries, in addition to GZPHL group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither GZPHL nor the PRC government publishes financial statements available for public use.

The Group sells its products on wholesale and retail basis. The retail sales are conducted through the Group's retail outlets at market prices on cash basis. Due to the pervasiveness of the Group's retail transactions with the state-controlled enterprises' employees, the key management personnel and their close family members of state-controlled enterprises, and other related parties, there is no feasible way or a reliable system to track such transactions and ensure the completeness of the disclosure. Therefore, the sales of goods disclosed above do not include retail sales to related parties. Management believes that meaningful information relative to related party transaction has been adequately disclosed.

In addition, normal transactions entered into with financial institutions, public utilities providers and governmental departments and agencies have been excluded.

(i) Service fees charged by other state-controlled enterprises are mainly in relation to advertising and promotion activities, commercial insurance and transportation. These transactions were entered into at open market terms.

(2) Key management compensation

	2008 **RMB'000**	2007 RMB'000 (Restated)
Salaries and other benefits	**1,533**	1,885
Bonuses	**1,143**	1,272
	2,676	3,157

36 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(3) As at 31 December 2008, the Group and the Company had the following significant balances with related parties

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Due from ultimate holding company	**2,844**	3,404	**2,688**	3,240
Due to ultimate holding company	**6,471**	8,326	**23**	–
Due from jointly controlled entities	**28,327**	2,324	**5,315**	1,348
Due to jointly controlled entities	**9,066**	6,220	**188**	188
Due from subsidiaries	**–**	–	**4,224**	7,495
Due to subsidiaries	**–**	–	**926**	14,393
Due from subsidiaries of GZPHL and its related entities	**31,436**	34,296	**6,132**	9,674
Due to subsidiaries of GZPHL and its related entities	**14,896**	40,294	**–**	–
Due from other state-controlled entities	**27,852**	662,310	**6,134**	17,892
Less: Provision for impairment of receivables	**(2,970)**	(19,998)	**(613)**	(1,789)
	24,882	642,312	**5,521**	16,103
Due to other state-controlled entities	**5,501**	105,172	**–**	–

The amounts due from/to ultimate holding company, jointly controlled entities, subsidiaries of GZPHL and its related entities and other state-controlled entities arise mainly from sales/purchases of goods/services. They are unsecured in nature, bear no interest and repayable on demand.

36 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(3) As at 31 December 2008, the Group and the Company had the following significant balances with related parties *(Continued)*

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Loans from a jointly controlled entity (Note 22)	**30,000**	30,000	**30,000**	30,000
Loans to a jointly controlled entity (Note 15)	**150,000**	–	**150,000**	–
Loans from a subsidiary (Note 22)	**–**	–	**20,000**	20,000
Loans to subsidiaries (Note 15)	**–**	–	**382,946**	605,712
Other balances with state -controlled banks:				
– Cash at bank	**379,927**	617,534	**158,670**	68,112
– Bank borrowings	**243,275**	938,402	**–**	–

36 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(4) Loans with jointly controlled entities

	Group and Company	
	2008	2007
	RMB'000	RMB'000
		(Restated)
Loans to a jointly controlled entity:		
At 1 January	**–**	–
Transfer in arising from the dilution of interest in a subsidiary	**212,660**	–
Loans advanced during year	**150,000**	–
Loans repayments received	**(212,660)**	–
Interest income	**7,646**	–
Interest received	**(7,646)**	–
At 31 December	**150,000**	–
Loans from a jointly controlled entity:		
At 1 January	**30,000**	30,000
Loans received	**30,000**	30,000
Loans repayment	**(30,000)**	(30,000)
Interest expenses	**907**	743
Interest paid	**(907)**	(743)
At 31 December	**30,000**	30,000

37 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2008:

Name	Equity interest held (%)		Registered capital	Principal activities
	Directly	Indirectly	(RMB)	
Guangzhou First Chinese Medicine Company Limited [3]	100.00	–	192,820,000	Production of CPM
Guangzhou Chen Li Ji Chinese Medicine Factory	100.00	–	94,000,000	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory	100.00	–	82,416,741	Investment holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. [3]	88.40	–	86,232,345	Production of CPM
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. [3]	87.77	–	65,436,232	Production of CPM
Guangzhou Xing Qun Pharmaceutical Co., Ltd. [3]	88.99	–	77,168,904	Production of CPM
Guangzhou Cai Zhi Lin Pharmaceutical Co.,Ltd [2]	100.00	–	72,026,905	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Corporation	100.00	–	2,568,000	Import and export of medicine
Guangzhou Qi Xing Pharmaceutical Co., Ltd. [1]	–	75.00	100,000,000	Production of CPM
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	–	100.00	3,113,000	Processing of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	–	100.00	3,934,000	Retailing of Chinese raw medicine and CPM

37 PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Equity interest held (%)		Registered capital	Principal activities
	Directly	Indirectly	(RMB)	
Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd. [2]	96.93	2.36	162,764,300	Research and development of CPM
Guangzhou Baidi Biological Pharmaceutical Co., Ltd. [2]	97.26	–	131,600,000	Research and development of patented biological products
Guangzhou Huanye Medicine Co., Ltd. [2]	100.00	–	6,000,000	Production of western pharmaceutical products
Guangxi Ying Kang Pharmaceutical Co., Ltd. [2]	51.00	–	31,884,529	Production of CPM

The above principal subsidiaries are all operated in the PRC.

1 Sino-foreign joint venture
2 Limited company
3 Joint stock company

(a) Acquisition of interests in subsidiaries from minority interest and increase in registered capital of subsidiaries

(i) Pursuant to an agreement entered into between the Company and the other minority shareholders of Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd. ("Hanfang"), the Company acquired an aggregate equity interest of 26.04% in Hanfang from the other minority shareholders in cash of RMB 23,299,000. Subsequent to the aforementioned acquisition, the registered capital of Hanfang was increased by RMB 35,000,000, which was fulfilled by the conversion of the loan advanced by the Company to Hanfang before. The relevant legal procedures were completed in 2008. The equity interest held by the Company in Hanfang increased to 99.29% following the acquisition and capital contribution.

(ii) In 2008, the registered capital of Guangzhou Baidi Biological Pharmaceutical Co., Ltd. ("Baidi") was increased by RMB 48,000,000, which was fulfilled by the conversion of the loan advanced by the Company to Baidi before. The relevant legal procedures were completed in 2008. The equity interest held by the Company in Baidi increased to 97.26% following the capital contribution.

(iii) During the year, the Company injected RMB 75,000,000 in cash into Guangzhou First Chinese Medicine Company Limited. The relevant legal procedures were completed in 2008.

37 PRINCIPAL SUBSIDIARIES *(Continued)*

(b) A subsidiary put under liquidation

During the year, Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. was put into voluntary liquidation. The procedures were completed in 2008. The relevant losses had been recognised in the consolidated income statement in 2008.

(c) Dilution of equity interest in a subsidiary

As detailed in Note 1, GPC Limited, a subsidiary of the Company in 2007, became a jointly controlled entity in 2008.

38 FINANCIAL GUARANTEE

The Company provided financial guarantee of RMB 145,011,000 (2007: 145,011,000) to its subsidiaries to obtain bank loans. The Directors consider that the fair value of these contracts at the date of inception was minimal and understand the repayment was on schedule and risk of default in payment was remote, therefore no provision has been made in the financial statements for the guarantees.

Documents Available for Inspection

1. The financial statements signed by the legal representative and the Financial Controller of the Company;

2. The auditors' reports sealed and signed by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants together with the financial statements prepared by them in accordance with PRC Accounting Standards and HKFRS, respectively;

3. The original company documents disclosed and announcements published in Shanghai Securities during the Reporting Period;

4. The documents listed above are available at the Secretariat, located at 2nd Floor, 45 Sha Mian North Street, Guangzhou, Guangdong, the PRC.