

GUANGZHOU PHARMACEUTICAL COMPANY LIMITED

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

SUMMARY OF ANNUAL REPORT FOR 2001

Important notice:

The Board of Directors of Guangzhou Pharmaceutical Company Limited ("the Board") severally and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this summary of annual report and believe that there are no material omissions from, or misrepresentations or misleading statements contained in this summary of annual report.

This announcement is a summary of 2001 annual report. In order to have a complete understanding, investors should refer to the 2001 annual report.

COMPANY PROFILE

Legal name

Chinese name:	廣州藥業股份有限公司
Chinese abbreviation:	廣州藥業
English name:	Guangzhou Pharmaceutical Company Limited
English abbreviation:	GPC

Legal representative:	Cai Zhixiang
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Company Secretary

Name:	He Shuhua
Address:	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC
Telephone:	(8620) 81218117
Fax:	(8620) 81216408
E-mail:	hesh@gpc.com.cn

Registered office addresses:

The PRC registered office address:	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC
Post code:	510130

Website:	http://www.gzphar.com
E-mail:	sec@gpc.com.cn
Principal business address in Hong Kong :	Room 2005, 20th Floor, Tower Two, Lippo Center, 89 Queensway, Hong Kong

Newspapers designated by	Shanghai Securities Daily,
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the Company to disclose information:	Hong Kong Economic Daily Hong Kong iMail (English)
Internet website publishing annual report designated by:	
The China Securities Regulatory Committee	http://www.sse.com.cn
The Hong Kong Stock Exchange of Hong Kong Limited	http://www.hkex.com.hk
Place where the annual report is available for inspection:	Company Secretary Office Guangzhou Pharmaceutical Company Limited 2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC
Place of listing of shares and trading codes:	A shares: Shanghai Stock Exchange Stock code: 600332 Stock name: GZ Phar.
Limited	H shares: The Stock Exchange of Hong Kong Stock code: 0874 Stock name: GZ Phar.

Background of the Company

Guangzhou Pharmaceutical Company Limited (the "Company") is a joint stock company with limited liability established in the People's Republic of China (the "PRC") on 1 September 1997 pursuant to a re-organization in 1997 of eight Chinese patent medicine ("CPM") manufacturing entities and three pharmaceutical trading entities formerly under the supervision and control of Guangzhou Pharmaceutical Holdings Limited ("GZPHL"). The Company's H shares were listed on The Stock Exchange of Hong Kong Limited (the "HKSE") on 30 October 1997. Upon obtaining approval from the Chinese Securities Regulatory Commission (the "CSRC") on 10 January 2001, the Company issued 78,000,000 Renminbi ("Rmb") A shares in China. The Company's A shares were officially listed on the Shanghai Stock Exchange (the "SSE") on 6 February 2001.

The Company and its subsidiaries (the "Group") are principally engaged in (i) the manufacture and sales of CPM and (ii) the wholesale, retail, import and export of Western and Chinese pharmaceutical products and various medical apparatus.

FINANCIAL SUMMARY AND ANALYSIS

1 Details of the profit of the Group for the year

- (1) Extracted from the accounts prepared in accordance with PRC accounting standards:

	2001 <i>Rmb'000</i>
Total profit	260,137
Net profit	146,134
Net profit after non-operating items (note)	147,580
Profit from principal operations	1,148,025
Profit from other operations	36,061
Operating profit	262,425
Income from investments	-841
Government subsidies	3,512
Net non-operating result	-4,959
Net cash inflows from operating activities	140,154
Net increase in cash and cashequivalents	379,067

Note: net of non-operating items including government subsidies of Rmb3,512,000 and net non-operating expense of Rmb4,959,000.

- (2) Difference between the accounts of the Group prepared in accordance with PRC accounting standards and the accounting principles generally accepted in Hong Kong ("HK GAAP"):

	Group	
	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Net assets under PRC accounting standards	2,172,910	1,326,404
Provision for bad debts	(33,905)	(28,520)
Deferred expenditures capitalised	79,463	89,909
Difference in fixed assets revaluation	136,758	138,733
Overprovision of research and development cost	17,463	17,463
Impairment charge recognised in 2001	-	
	50,119	
Difference in minority interests	(12,913)	(19,618)
Dividend proposed and declared after balance sheet date	48,654	24,327

Net assets under HK GAAP	2,408,430	1,598,817
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	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Net profit under PRC accounting standards	146,134	141,214

Impairment charge on fixed assets and construction

in progress	(50,119)	-
Amortisation of deferred expenditure capitalised	(10,446)	(10,448)
Additional depreciation on revalued fixed assets	(1,975)	(1,444)
Reversal of overprovided research and development cost	-	
	11,525	
Subsidies income recognised	3,061	13,185
Inventories written off	-	
	(17,255)	
Removal compensation recognised in prior years	-	
	(7,947)	
Cost of goods sold overstated	(2,229)	-
Bad debt recovered	2,796	-
Distribution of staff welfare fund from net profit	(1,334)	-
Difference in minority interests	9,980	6,420
Net profit under HK GAAP	95,868	135,250

2. Principal Financial Data and Financial Indicators

(1) Extracted from the accounts prepared in accordance with PRC accounting standards:

	2001	2000	2000 Restated	1999
Income from principal operation (Rmb'000)	5,334,029	4,222,857	4,222,857	
	3,454,490			
Net profit (Rmb'000)	146,134	146,234	141,214	
	128,663			
Total assets (Rmb'000)	3,697,239	3,063,915	3,017,797	
	3,001,287			
Shareholders' equity (excluding minority interests) (Rmb'000)	2,172,910	1,373,105	1,326,404	
	1,365,972			
Earnings per share (Rmb)	0.18	0.20	0.19	
	0.18			
Net assets per share (Rmb)	2.68	1.87	1.81	
	1.86			
Adjusted net assets per share (Rmb)	2.59	1.74	1.68	
	1.70			
Net cash inflow from operating activities per share (Rmb)	0.17	0.39	0.39	
	0.40			
Return on net assets (fully diluted)%	6.73	10.65	10.65	9.42
Return on net assets (weight average)%	7.04	10.15	10.02	9.72
Return on net assets after deducting				

Foreign legal entities' shares	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
2. Collected legal entities' shares	-	-	-	-	-	-	-	-
3. Employees' shares	-	-	-	-	-	-	-	-
4. Preferred shares or others	-	-	-	-	-	-	-	-
Total unlisted shares	513,000,000	-	-	-	-	-	-	513,000,000
B. Listed shares								
1. RMB ordinary shares	-	-	-	-	78,000,000	-	-	78,000,000
2. Foreign shares under the domestic offering	-	-	-	-	-	-	-	-
3. Foreign shares under foreign offering (H Share)	219,900,000	-	-	-	-	-	-	219,900,000
4. Others	-	-	-	-	-	-	-	-
Total listed shares	219,000,000	-	-	-	78,000,000	-	-	297,900,000
C. Total Shares	732,900,000	-	-	-	78,000,000	-	-	810,900,000

(2) Shares issued to the public

The A shares of the Company were issued in China on 10 January 2001. The issue price was Rmb 9.80 per share and 78,000,000 shares of Rmb1.00 each were issued. These A shares were listed on the SSE on 6 February 2001.

Subsequent to the issue of A shares, the issued share capital of the Company is 810,900,000 share of Rmb1.00 each, which included 513,000,000 State-owned shares, 78,000,000 A shares and 219,900,000 H shares. The State-owned shares, A shares and H shares respectively represented 63.26%, 9.62% and 27.12% of the Company's total issued share capital.

(3) The employees' shares

The Company has not issued any employees' shares.

2. Introduction of shareholder details

(1) Number of shareholders as at 31 December 2001

As at 31 December 2001, there were 62,670 shareholders in total. Only one shareholder holds the State-owned shares for the State. There were 62,632 shareholders holding the A shares and 37 shareholders holding the H shares.

(2) Substantial shareholders

(a) The register of substantial shareholders maintained under section 16(1) of the

Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), chapter 396 of the law of Hong Kong, shows that as at 31 December 2001, the Company had the following substantial shareholders holding 10% or more of the Company's issued share capital. These interests are in addition to those disclosed elsewhere in this report in respect of the directors, supervisors and chief executives.

- (i) GZPHL held 513 million State-owned shares, representing approximately 63.26% of the issued share capital of the Company as at 31 December 2001.
- (ii) As notified by the HKSCC Nominees Limited, the following company was holding more than 10% of the H shares issued by the Company as at 31 December 2001:

Shareholders	Types of shares	Shareholding at year end	Percentage
Guotaijunan Securities (Hong Kong) Company Limited	H Shares	26,342,000	11.98%
The Hong Kong and Shanghai Banking Corporate Limited	H Shares	26,293,950	11.96%

Other than those listed above, there was no other person holding more than 10% of the Company's issued share capital as at 31 December 2001.

- (b) As at 31 December 2001, the top ten major shareholders of the Company were as follows:

Shareholders	Type of shares	Share holding at year end	Percentage%
GZPHL	State-owned shares	513,000,000	63.26
HKSCC Nominees Limited	H Shares	218,683,000	26.97
Xinghe Trust Fund	A Shares	337,108	0.04
Deng Dakai	A Shares	305,740	0.04
De Jing Department Store	A Shares	160,600	0.02
Southern Trust Fund	A Shares	151,212	0.02
Tianyuan Trust Fund	A Shares	139,000	0.02
Sun Xisheng	A Shares	135,530	0.02
Zhang Na	A Shares	123,000	0.02
Xie Fenghua	A Shares	115,000	0.01

Note: Southern Trust Fund and Tianyuan Trust Fund are under common control of China Southern Fund Management Co., Ltd. Other top ten major shareholders are not connected with each other.

- (c) Information of controlling shareholder of the Company

Name of shareholder: GZPHL

Legal representative:	Cai Zhixiang
Date of establishment:	7 August 1996
Registered capital:	Rmb1,007,700,000
Type of legal entity:	State-owned enterprise with limited liability

GZPHL's business scope is to invest in and manage State-owned assets; to sell and manufacture Western pharmaceutical medicine, CPM, Chinese raw medicine, biological products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and medicine-related merchandise; to undertake medicine-related import and export affairs and to develop real estate.

(d) The shares held by GZPHL were not pledged as collateral during the reporting period.

During the reporting period, GZPHL was planning to use part of the State-owned shares in the Company for the debt restructuring of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. The total number of shares concerned is 122,630,000, representing approximately 15.12% of the Company's issued share capital. As the equity restructuring is near completion, the said shares will be pledged or disposed. The Company will make necessary disclosure of this matter in accordance with relevant rules and regulations in due course.

(e) During the reporting period, the Company and its subsidiaries have not redeemed any of the Company's shares. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares.

(f) During the reporting period, there was no change in the ultimate holding company.

3. Pre-emptive rights

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

PARTICULARS OF SENIOR MANAGEMENT AND STAFF

1. Directors, supervisors and senior management

(1) Directors' interest in the Company

Name	Gender	Title	Shareholding in the Company
Cai Zhixiang	Male	Managing director	0
Li Yimen	Male	Deputy managing director	0
Chen Xiangzhi	Male	Note 1	0
Feng Zansheng	Male	Director	0

Chu Youlin	Male	Independent non-executive director	0
Wu Zhang	Male	Independent non-executive director	0
Liu Jinxiang	Male	Independent non-executive director	0
Zhang Bohua	Male	Independent non-executive director	0
Huang Buren	Male	Independent non-executive director	0
Chen Canying	Male	Chairman of supervisory committee	0
Luo Jidong	Male	Supervisor	0
Tan Sima	Male	Supervisor	0
Zhou Yuejin	Male	Director and general manager (Note 2)	0
Li Decheng	Male	Deputy general manager	0
Jiang Shijie	Male	Deputy general manager	0
He Shuhua	Male	Company secretary and deputy general manager	0

Note 1: Mr. Chen Xiangzhi was director and general manager of the Company during the reporting period. In December 2001, he resigned from the post of general manager due to internal transfer. In the Extra-Ordinary General Meeting held on 27 March 2002, his resignation from the post of director was approved.

Note2: Mr. Zhou Yuejin took up the post of general manager of the Company from December 2001. In the Extra-Ordinary General Meeting held on 27 March 2002, his appointment was approved.

(2) Positions held by director and supervisor in the holding company of the Company

Mr. Cai Zhixiang, managing director of the Company, is also the managing director of GZPHL, the controlling shareholder of the Company.

Mr. Li Yimen, deputy managing director of the Company, is also the deputy managing director and general manager of GZPHL.

Mr. Chen Canying, chairman of the supervisory committee, is also the secretary of the disciplinary committee and chairman of the labour union of GZPHL.

(3) Annual emoluments

During the year, total emolument of directors, supervisors and senior managements is Rmb3,520,000. Total emoluments of the three highest paid directors in the Company amounted to Rmb1,580,000. Total emolument of the three highest paid senior executives amounted to Rmb 710,000.

The allowance and other emoluments of the independent directors are as follows:

Name	Allowance	Other emoluments
	Rmb	Rmb
Chu Youlin, David	95,200	Nil
Wu Zhang	42,600	Nil
Liu Jingxiang	59,500	Nil

Zhang Bohua	95,200	Nil
Huang Buren	20,100	Nil

During the reporting period, the headcount of directors, supervisors and senior management was 16. The number of directors, supervisors and senior management of the Company classified according to their emoluments are as follows:

Below Rmb 100,000	7
Rmb 100,000 - Rmb 400,000	4
Over Rmb 400,000	5
	16

Policy on determining emoluments of directors, supervisors and senior management:

Emoluments of directors and supervisors were proposed by the Board. The annual general meeting authorised the Board to determine the amount of emoluments and payment method for the services of the Company's directors and supervisors. The amount of emolument and payment method of senior executives were determined after taking into account of the Company's operating results and individual performance.

(4) Reasons for resignation of Directors, Supervisors and senior management during the reporting period

During the reporting period, Chen Xiangzhi, General Manager, resigned due to internal transfer to a fellow subsidiary of the Company. Xiao Cheng, Vice General Manager, resigned for retirement.

Note: Subsequent to the balance sheet date, with the approval of the first 2002 extra-ordinary General Meeting, Zhou Yuejin was appointed as director of the Company.

(5) Directors and Supervisors' service contracts

A summary of service contracts signed between the Company and the Directors and Supervisors is as follows:

- The term is from 18 October 2000 to the date of election of the 3rd term of the Board in 2003.
- The term of appointment of the directors of the Company is three years until the date of re-election of the 3rd term of the Board in 2003. Directors who retired, could offer themselves for re-election.

The service contracts do not stipulated any terms compensation for termination of contract, or for failure in re-election after expiration of the terms of appointment.

2. Employees of the Group

As at 31 December 2001, the number of employees on the payroll register of the Company was 8,320, including:

	No. of employees
Production related	2,608
Technology related	863
Finance related	307
Administration related	1,509
Sales related	3,033

Among the employees in the Company, there are 34 holding master degrees, 465 holding bachelor degrees, and 3,905 retired. The total salaries and welfare for the year were approximately Rmb 376 million.

The remuneration of the employees of the Group includes their salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

CORPORATE GOVERNANCE

1. Corporate governance status

After listing, the Company observed closely with the Company Law, the Securities Law and other relevant laws and regulations of the CSRC to continuously improve the corporate governance, standardize its operation and increase its efforts in disclosing the Company's information.

The articles of association of the Company are prepared in accordance with "The Guidance of Memorandum for Listed Companies", "Terms for Overseas Listed Companies' Memorandum" and the "Listing Rules". After the issuance of the "Standard for Corporate Governance for Listed Companies" by CSRC and The Ministry of Economic and Trading Commission, the Company has improved the governing details in the articles and associations, "The Rules of Shareholders' Meetings", "The Rules Of Directors' Meetings", "The Rules For Independent Directors", "The Rules For Supervisory Committee", "The Rules For Information Disclosure", "Working Regulations of General Manager", and "Regulations for Internal Finance Management of the Company". The amendment to the articles of association, "The Rules of Shareholders' Meetings" and "The Rules Of Directors' Meetings" will be presented at the 2001 annual general meeting for approval.

- (1) Shareholders and the General Meeting: the Company treated all the shareholders equally and protected their legal rights and interests. The Company strictly adhered to the requirements of "General Views for Shareholders' Meeting". In 2001, the Company held two General Meetings. Quorum and the number of shares they represented met the Company Law and the Company's articles of association. The general meetings had been held in a venue convenient to all shareholders.

- (2) Controlling Shareholder and the Company: the Company's controlling shareholder - GZPHL has standardised operations and it would not act beyond the shareholders' meeting and interfere directly or indirectly the Company's decision making or operations. The controlling shareholder strictly followed the conditions and procedures specified in the Company's articles of association and other relevant laws in regard of the nominations of candidates of the Company's directors and supervisors. The Company and its controlling shareholder worked separately in respects of business, human resources, assets, organisation and financing, therefore, the Board, Supervisory Committee and internal organisation mechanism were able to function independently and appropriately. The Company's related parties transactions were carried out on a fair and reasonable policy, and the information in terms of pricing basis, setting up and compliance of respective agreements was adequately disclosed.
- (3) Directors and the Board: the directors were elected in accordance with the Company's articles of association. The numbers of directors and the Board's composition met the requirements of the relevant laws and regulations. The Board is responsible for setting the regulations for Board Meeting. Each director placed utmost honesty and diligence in fulfilling their responsibilities. Directors actively took part in training courses, had a strong knowledge in the relevant laws and regulations, and fully understood their rights, responsibilities and obligations. The Company has elected independent non-executive directors and the specialized committee. This fully utilized the function of independent non-executive directors.
- (4) Supervisors and the Supervisory Committee: the number of Supervisors and the composition of the Committee are in compliance with the relevant laws and regulations. The Supervisory Committee is responsible for setting the regulations. In keeping with the best interests of the shareholders, the Supervisors fulfilled their duties in a diligent manner and supervised the legitimate performance of the directors and management.
- (5) Interested parties: the Company has respected and protected the legal interests of it's banks and other creditors, staff, consumers and interested parties so as to mutually promote the sustainable and healthy development of the Company.
- (6) Disclosure of information: the Company delegated the Company Secretary to be responsible for disclosing the Company's information, handling queries from shareholders, and consultation on the Company's matters. In accordance with the relevant laws and regulations and the articles of association, the Company continued to disclose information in an honest, diligent, objective, truthful, accurate, timely, and comprehensive manner. The Company also ensured that the shareholders have fair access to information relating to the Company. In addition, the Company disclosed on a timely basis, the detailed information regarding the major shareholders, controllers of the Company and changes in share capital.

After the amendment to the articles of association and "The Rules of Shareholders' Meetings" is passed in the 2001 annual general meeting, the Company will prepare

"The Rules For The Meeting Of Investment Committee Of The Board", "The Rules For The Meeting Of Audit Committee Of The Board", "The Rules For Meeting Of The Committee For Nomination Of Directors" and "The Rules For Meeting Of The Committee For Assessment Of Performance Of Director And Their Remuneration" as soon as practicable. The setting of the above rules will ensure that the committee under the Board will be operated in a more efficient and effective manner.

2. Independent non-executive Directors' Fulfilment of Duties:

Independent non-executive directors have fulfilled their duties by actively protecting the overall interests of the Company and minority shareholders, and providing constructive advice towards the Company's development in accordance with the relevant laws and regulations. In fulfilling their duties, the independent directors were independent from the major shareholders, ultimate controlling person and other persons or companies with relevant interests in the Company.

3. Directors, Supervisors and Senior Management's performance assessment, incentive mechanism, and relevant reward system

A long-range incentive scheme had been discussed and approved at the 2001 1st EGM. The scheme is available for the directors (excluding independent directors), supervisors (excluding external supervisors), senior management, middle management, and core technicians. A share option scheme, which pre-requisite is based on meeting certain predetermined targets and shall be linked to the Company's and management's performance, will only be triggered if a predetermined profit target is met, aims to establish a reward system based on both the company's management's performance.

A Remuneration and Evaluation Committee, under the Board's direction, has been established and is responsible for investigating and approving performance evaluation standards and remuneration policies and schemes for the directors, supervisors and senior management.

DETAILS OF SHAREOLDERS' MEETINGS

1. Shareholders' meeting held during the financial year

During the reporting period and up to the date of the 2001 Annual Report, the Board held an Annual General Meeting ("AGM") and two Extraordinary General Meetings ("EGM"). A summary of the resolutions passed at those meetings is as follows:

- (1) The fourth meeting of the second term of the Board held on 20 April 2001 issued a notice to hold its 2000 AGM at the conference room of the Company on 15th June 2001. The notice of the 2000 AGM was disclosed in the China Securities, Shanghai Securities Daily, Hng Kong Economic Daily and the Hong Kong iMail on 23 April 2001. The Company's directors and supervisors were present at the AGM. Shareholders and three authorised representatives

holding a total of 513,006,200 shares, which represented 63.26% of the issued share capital of the Company, were present and were sufficient for the quorum of the meeting in accordance with the Company's articles of association. The AGM passed the following resolutions:

- (a) Approved the 2000 Directors' Report;
- (b) Approved the 2000 report of the Supervisory Committee;
- (c) Approved the 2000 audited accounts;
- (d) Approved the 2000 auditors' report;
- (e) Approved the re-appointment of Guangzhou Yangcheng Certified Public Accountants Co Ltd and PricewaterhouseCoopers as domestic and international auditors respectively, and authorised the Board to fix their remuneration.
- (f) Approved the scheme of profit distribution and dividend for 2000;
- (g) Fixed the remuneration of the directors and supervisors for 2001;
- (h) Approved the Board to allot and issue new shares in accordance with the relevant regulations during the relevant period and authorised the Board to make any necessary amendments to the Company's articles of association and to register such changes with the relevant authority.

The resolution notice of the 2001 AGM was disclosed in the China Securities, the Shanghai Securities Daily, the Hong Kong Economics Daily and the Hong Kong iMail on 18 June 2001.

- (2) The eighth meeting of the second term of the Board held on 27 September 2001 issued a notice to hold its first 2001 EGM at the conference room of the Company on 12 November 2001. The notice of first 2001 EGM was disclosed in China Securities, Shanghai Securities Daily, the Hong Kong Economic Daily and the Hong Kong iMail on 28 September 2001. The Company's directors and supervisors were present at the AGM. Six shareholders and authorised representatives holding a total of 513,414,000 shares, which represented 63.31% of the issued share capital of the Company, were present and were sufficient for the quorum of the meeting in accordance with the Company's articles of association. The first 2001 EGM passed the following resolutions:

Guangzhou Pharmaceutical Corporation, a wholly-owned subsidiary of the Company, will acquire a property, namely Suikang Building located at no. 82 Shangxiajiu Road Guangzhou from Guangzhou Pharmaceutical Resources Supplying Company, a subsidiary of GZPHL. The consideration of Rmb39,239,480 is based on revalued amount.

The resolution notice of the EGM was disclosed in the China Securities, the Shanghai

Securities Daily, the Hong Kong Economic Daily and the Hong Kong iMail on 13 November 2001.

2. EGM held after the balance sheet date

The tenth meeting of the second term of the Board held on 7 February 2002 issued a notice to hold its first 2002 EGM at the conference room of the Company on 27 March 2002. The notice of first 2002 EGM was disclosed in China Securities, Shanghai Securities Daily, the Hong Kong Economic Daily and the Hong Kong iMail on 8 February 2002. Three shareholders and authorised representatives holding a total of 731,556,999 shares, which represented 90.22% of the issued share capital of the Company, were present and were sufficient for the quorum of the meeting in accordance with the Company's articles of association. The first 2002 EGM passed the following resolutions:

- (a) Approved the resignation of Mr. Chen Xiangzhi, as Director and General Manager, and appointed Mr. Zhou Yuejin as General Manager.
- (b) Approved the establishment of a remuneration and evaluation committee.
- (c) Approved the implementation of the long-range incentive scheme for senior staff.

The resolution notice of the first 2002 EGM was disclosed in China Securities, Shanghai Securities Daily, the Hong Kong Economic Daily and the Hong Kong iMail on 28 March 2002.

REPORT OF THE BOARD OF DIRECTORS

1. Discussion and analysis of the company's operations

(Unless otherwise stated, financial data contained here below is extracted from the accounts prepared by the Group in accordance with the PRC accounting standards.)

- (1) The Company's industry and position

The Company operates in the pharmaceutical industry. On the basis of turnover generated, the Company is the largest manufacturer of CPM, and one of the three largest pharmaceutical products trading enterprises within China.

- (a) Principal activities and geographical analysis of operations

Year 2001 is the fourth financial year since the Company listed its H shares on the HKSE in 1997 and it is the first financial year since the Company listed its A Shares on SSE. During the year, China has successfully become member of WTO and the domestic pharmaceutical market had a substantial adjustment in light of the State's implementation of reforms to the national medical system, the setting-up of a classification system for prescription medicine, the formulation of a pharmaceutical pricing policy, and the implementation of employees' medical care insurance. The

Group implemented a number of measures in response to severe market competition and has maintained sustainable growth evident from its operating results.

According to the Group's consolidated accounts for the year ended 31 December 2001, turnover of the Group under both HK GAAP and PRC accounting standards was Rmb5,334,029,000, representing an increase of 26.31% over that of last year. Profit before taxation under PRC accounting and regulations amounted to Rmb260,137,000, representing an increase of 20.92% over that of 2000. Profit before taxation under HK GAAP amounted to Rmb205,987,000, representing an increase of 0.69% over that of 2000. An analysis of the Group's turnover and profit before taxation for the reporting period by principal activities is as follows:

	Turnover (PRC GAAP) <i>Rmb'000</i>	Profit from principal activities (HK GAAP) <i>Rmb'000</i>	(PRC GAAP) <i>Rmb'000</i>
Principal activities:			
Manufacturing	1,634,887	1,634,887	826,180
Trading:			
Wholesale	3,281,570	3,281,570	235,566
Retail	357,170	357,170	80,156
Import and export	60,402	60,402	6,123
	3,699,142	3,699,142	321,845
	5,334,029	5,334,029	1,148,025

Geographical analysis for sales arising from manufacturing and trading operations is as follows:

Area	Turnover <i>Rmb'000</i>	% of the consolidated turnover	Turnover <i>Rmb'000</i>	% of the consolidated turnover	Total
South China	1,108,068	67.78	3,147,133	85.08	4,255,201
East China	202,029	12.36	184,398	4.98	386,427
North China	103,216	6.31	100,964	2.73	204,180
North East China	97,970	5.99	55,030	1.49	153,000
South West China	62,487	3.82	90,606	2.45	153,093
North West China	36,807	2.25	60,609	1.64	97,416
Exporting	24,310	1.49	60,402	1.63	84,714
Total	1,634,887	100.00	3,699,142	100.00	5,334,029

Sales analysis of major products is as follows:

Product	Turnover in 2001	Gross profit in 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Heat Clearing and Anti Toxic	364,880	169,391
Diabetes Curing	310,932	190,374
Cough and phlegm Clearing	177,653	85,320
Arthritis Curing	164,176	95,920
Gastric	83,736	38,615

(b) CPM manufacturing business (the "manufacturing operations")

Turnover of the manufacturing operations in 2001 under both HK GAAP and PRC accounting standards was Rmb1,634,887,000, representing an increase of 26.23% over that of 2000. Profit before taxation of the manufacturing operations was Rmb186,582,000, representing an increase of 17.78% over that of 2000. Profit before taxation of the manufacturing operations under HK GAAP was Rmb150,716,000, representing a decrease of 5.64% over that of 2000. Both the manufacturing operations' turnover and profit before taxation under PRC accounting standards have reached record high levels.

In 2001, manufacturing operations focused on expanding the market share of its major products by strengthening its technology promotions and advertising campaigns in certain major cities and end-user markets. The purpose of these events is to explore and develop potential markets and customers. An information system for sales and market analysis was also implemented to monitor the market conditions so as to adjust the marketing strategy on a timely basis. This contributed an increase in the sales of the key products.

In 2001, the manufacturing operations had 30 major products for which annual sales of each exceeded Rmb10 million. Of these products, 5 products achieved annual sales individually of Rmb50 million and 3 products achieved annual sales individually of Rmb100 million. This attributed to the increase in the operating profit of the manufacturing operations.

The manufacturing business placed emphasis on manufacturing costs and expenses controls. In 2001, the average unit cost of major products decreased by 4.57 % and the operating expenses decreased by 2.67 % in comparison to last year. The decrease in these costs made significant contributions to the growth in profit of the manufacturing operation.

In 2001, the manufacturing operations have completed a number of technology upgrade projects and GMP certification implementations. These included: technology upgrade of Xiao He Pill of Kwang Chow First Factory Chinese Medicine Factory ("Kwang Chow First Factory"); microwave drying line of Guangzhou Qi Xing Pharmaceutical Factory ("GZ Qi Xing"); GMP certification of a pill production line of Guangzhou Yangcheng Pharmaceutical Co Ltd ("GZ Yangcheng"). The in-progress upgrade projects and GMP certificate implementations included: new factory

technology upgrade of Kwong Chow First Factory and Guangzhou Xing Qun Pharmaceutical Co Ltd ("GZ Xing Qun"); GMP certification procedures implementation of Guangzhou Pan Gao Shau Pharmaceutical Co Ltd ("GZ Pan Gao Shau"); technology upgrade of certain production lines of Guangzhou Jing Xiu Tang Pharmaceutical Co Ltd ("GZ Jing Xiu Tang"). These technology development projects have enhanced the manufactured operations production capacity and product quality and improved the competitiveness of the Company.

In 2001, the Group adjusted its operational structure to optimize its available resources. On 21 February 2001, with a resolution passed at the 3rd meeting of the second term of the Board, Kwang Chow First Factory merged with Guangzhou Zhongsheng Pharmaceutical Factory ("GZ Zhongsheng"). The merger further optimized the allocation of resources and enhanced the Group's ability to continue developing into the future and to minimise risks. After the merger, the turnover and profit before taxation of Kwang Chow First Factory increased by 29.08 % and 38.53% respectively, in comparison to those of the former individual factories.

To ensure the sustainable development, the Group speeded up the process of technical innovation and development of new products.

During the year, the Group disposed 30% of the equity of Guangjin Bio-Chemical Medicine Development Centre to Guangzhou Medical and Industrial Research Department. The Guangjin Bio-Chemical Medicine Development Centre has been renamed as Guangzhou Han Fang Natural Medicine Research & Development Co., Ltd ("GZ Han Fang"). GZ Han Feng has commenced its research and development activities for 4 new Chinese medicines.

In order to expedite the process of securing new products and technology, the Group established a new member company, Guangzhou BaiDi Biological Pharmaceutical Company Limited ("GZ BaiDi"). GZ BaiDi is currently working on research of 4 new products related to anti-hepatitis B vaccine and actively seeking for co-operation projects with market potentials.

In 2001, the Group has commenced commercial production of three new products, which are "Shi Zuo Ye Guang Keli", "Yi Fu Zhi Xue Wan", and "Wei Re Qing". The manufacturing operation has also completed the clinical research for another three new products with PHY ingredients. The Group is developing certain new products, including "Si Yi Huan Si Ji", "Jie Yuan Jiao Nang", "Re Ke Qing Ke Li", "Kang Yi Gan DNA Yimiao", "Zhiwu Xueqiu Ningji Xu", etc.

The Group has successfully implemented ERP system for the manufacturing operations. Five manufacturing entities have completed the ERP system implementation. For the time being, implementation of ERP for Kwang Chou First Factory and GZ Yangzheng is in progress. The Group has commenced study on the implementation of ERP for the trading operations. The implementation of computerised network system and the ERP system has improved the overall efficiency and manufacturing quality of the manufacturing operations.

During the reporting period, inventory turnover days and accounts receivable turnover days were reduced by 37 days and 24 days respectively, in comparison to last year.

(c) Pharmaceutical trading business, including wholesaling, retailing, import and export (the "trading operations")

Turnover of the Group's trading operations in 2001 under both HK GAAP and PRC accounting standards was Rmb3,699,142,000, representing an increase of 26.35% over that of 2000. Profit before taxation of the trading operations under PRC accounting standards was Rmb73,555,000, representing a increase of 29.68% over that of 2000. Profit before taxation under HK GAAP was Rmb55,271,000 , representing a respective increase of 23.24% over that of 2000. Both the turnover and profit before taxation of trading operations have reached record high levels.

In 2001, a series of State pharmaceutical reform policies have been gradually implemented. By taking advantage of these development opportunities and adopting new market strategies on a timely basis, the trading operations was able to follow changes in the market. The trading operations have fully utilized the distributors strategy to develop new medicines for special diseases in order to meet market demand. The trading operations have obtained distribution rights for more than 477 new products in 2001. The trading operations, through the result of co-operation between the manufacturing the operations and trading operations within the Group, developed a competitive sales network. Control of logistics procedures has also been strengthened to help maximize the effectiveness of the sales network.

In 2001, the Guangzhou government has fully opened the pharmaceutical market by adopting the policy that hospitals can invite tenders. These new practices directly stimulated competition in the end-user markets. This markets change has driven the manufacturing operations to increase its wholesale power and to expand retail networks by adjusting the location of the retail shops so that it could strengthen its trading advantage. Jin Min Chain Store, on the strength of its large-scale operations, good reputation and extensive network, has a strong reputation in the pharmaceutical market of Guangzhou and other nearby large cities. The Group currently has 11 retail chain stores which have been deemed as the first batch of retail pharmaceutical stores under the basic insurance Scheme of Guangzhou City and Surban employees, representing 37% of retail pharmaceutical stores of this kind. During the year, the Group opened 100 new retail chain stores of which, 11 stores were owned by the Company and the other 89 were operated under franchising arrangements. As at 31 December 2001, the Group's retail network has 273 chain stores, included 173 Cai Zhi Lin chain stores, which mainly carry CPM, and 100 Jian Min chain stores, which carry Western pharmaceutical products. Jianmin chain stores and Cai Zhi Lin chain stores ranked the fourth and Seventh respectively of the national largest eight pharmaceutical chain stores in terms of turnover in 2001.

In 2001, the State's pricing control policy on pharmaceutical products coupled with severe competition in the domestic pharmaceutical market have, to a certain extent, affected the business of the trading operations, and led to a decrease in gross profit margin by 1.46%, compared with 2000. In order to maintain profitability, the trading operations have aggressively expanded its sales network and exercised stringent control over operational overheads. In addition, the trading operations have successfully improved the inventory control by reviewing stock level and sales statistics. Furthermore, management has paid attention to its credit control and

customer scanning policy. The decrease in operational overheads and increase in sales as well as the improvement on operational cashflows attributed to a sustained growth of the trading operations' profit.

Results and details of the Company's principal major subsidiaries

Enterprise Name	Principal activities and major products	Total Assets (Rmb'000)	Net Assets (Rmb'000)	Net Profit (Rmb'000)
Kwang Chow First Factory	Production and sales of Chinese patent medicine; major products are Xiao Ke Wan etc.	335,669	248,400	44,449
GZ Chen Li Ji	Production and sales of Chinese patent medicine; major products are Zhuang Yao Jian Shen Wan etc.	296,112	167,891	17,101
GZ Qi Xing	Production and sales of Chinese medicine; major products are Hua Tuo Zai Zhao Wan etc.	171,356	152,669	13,532
Guangzhou Pharmaceutical Corporation	Trading of Western Pharmaceutical products and medical apparatus	1,227,991	329,492	30,763
Guangzhou Chinese Medicine Corporation	Trading of Chinese patent medicine and Chinese raw medicine	320,292	86,233	3,815
Guangzhou Pharmaceutical Import & Export Corporation	Chinese and Western medicine, medical apparatus, package and medical consumables	71,548	18,398	313
GZ Xing Qun	Production and sales of Chinese patent medicine and chemical preparation; major products are Xia Shang Ju etc.	277,538	177,356	15,047
GZ Jing Xiu Tang	Production and sales of Chinese medicine; major products are Qing Re Xiao Yan Ning etc.	157,992	85,674	1,187
GZ Pan Gao Shou	Production and sales of Chinese medicine; major products are honeyed Chun Bei Pi Pa Gao etc.	279,786	175,359	13,860
GZ Yangcheng	Production and sales of Chinese medicine; major products are Bao Ji wan etc.	151,181	124,809	13,743
GZ Bai Di	Research and manufacturing of biology medicine	20,022	20,000	-
GZ Han Fang	Research and manufacturing of Chinese medicine	11,234	11,099	-391

Note1: Kwang Chow First Factory was reformed to become a limited liability company on 1 January 2002, now known as Guangzhou First Chinese Medicine Company Limited.

Note2: Guangzhou Pharmaceutical corporation was reformed to become a limited liability company on 21 December 2001, now known as Guangzhou Pharmaceutical Company Limited.

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

(d) Major customers and suppliers

During the year, the Group purchased its goods and services from its 5 largest suppliers amounting to Rmb766,081,000, represented 18% of total purchase. The purchases from the largest supplier amounted to Rmb213,262,000, represented 5.12% of the total purchases. The Group sold its goods and services to its 5 largest customers, amounting to Rmb368,857,000, represented 6.92% of the total sales. Sales to the largest customer amounted to Rmb140,525,000, represented 2.63% of the total sales.

To the knowledge of the Board, none of the directors, their associates or any shareholder owns more than 5% of the Company's share capital interest in the major suppliers or customers noted above.

(e) Issues arising from operations and solutions

The State further expanded its pharmaceutical reform and implemented a series of measures included reducing the prices of 383 pharmaceutical products and implementing a tendering system for hospitals. These new practices had negative impacts on the manufacturing operations and the trading operations, especially leading to a decrease in the gross margin of the trading operations. As remedial actions, the Company adopted the following strategies: 1. increasing the share of the pharmaceutical market by expanding wholesaling network; 2. increasing the retail market and playing an active role in opening new retail shops to increase coverage of the end-user market; 3. actively participating in the tendering system of hospitals to increase the share of prescription drugs market. The above strategies have secured a significant increase in the operating income of the Company.

(f) Comparison between the net profit for the year and the profit forecast as disclosed in the prospectus for public offering of A shares

The Group's net profit for 2001 prepared under the PRC accounting standards was Rmb146,134,000 had exceeded the profit forecast of Rmb 130,445,000 as disclosed in the prospectus for public offering of A shares.

(2) The Company's investments

(a) Use of net proceeds from the issue of H shares

The company issued a total of 219,900,000 H shares in October 1997. The residual proceeds of Rmb9,040,000 was utilised in the project of a modern technology center in current year. The company has co-operated with the Beijing Chinese Medicine University to set up Guangjin Chinese Medicine Innovation Centre in 1998. In February 2001 Beijing Chinese Medicine University transferred 30% equity in Guangjin Chinese Medicine Innovation Centre to the Guangzhou Pharmaceutical Industrial Research Department and Guangjin Chinese Medicine Innovation Centre was renamed as Guanzhou Hanfang. Up to 30 June 2001, the residual proceeds of

Rmb9,040,000 was fully utilised according to the business plan of the prospectus for H shares public offerings. As a technology platform of new medicine and new technology, the project has improved the Group's ability in research and development of new products.

(b) Use of net proceeds from the issue of A shares

Upon the approval from CSRC on 10 January 2001, the Company issued 78,000,000 A shares at the issue price of RMB9.8 per share in the PRC. The net proceeds received from the issue was Rmb737,990,000. During the reporting period, Rmb286,610,000 of the net proceeds from the issue of A shares was utilised. The remaining proceeds are currently placed as bank deposits or utilized as working capital. The Company will gradually put the funds in their budgeted use, according to the actual stage of completion.

Details of use of the proceeds are as follows:

Category	Projects	Budgeted injection from proceeds of issue <i>Rmb'000</i>	Funds injected during reporting period <i>Rmb'000</i>	Stage of completion
Project for the technology upgrade and industrialisation of new products				
Pills	Xiaokewan upgrade	29,800	14,630	70%
	Baogiwan upgrade	11,000	8,720	80%
	Commercialisation of Weierqian	29,000	2,330	30%
	Automation of pill production	11,000	1,940	30%
	Technolgy upgrade of Wahtao pills	17,000	3,500	40%
	Throat, spleen and intestine pills technology upgrade	29,100	8,200	30%
Syrup	Import of the technolgy for syrup production	29,500	630	20%
	Commercialisation of Keli syrup	19,600	860	30%
Granules	Anti- presipriation granules upgrade	12,000	2,370	30%
	Automation of granules upgrade	29,900	20,300	70%
	Flu granules for children upgrade	23,000	18,000	70%
Tablets	Commercialisation of Xiaoyin tablets	29,500	3,050	30%
	Spleen, intestine and pimples tablets upgrade	17,800	960	30%
	Gaolu upgrade	29,500	10,630	40%
	Tablets workshop upgrade	12,000	4,310	50%
Industralisation foundation				
	Modernisation of extraction and purification technology	29,900	200	1%
	Critical purification of CO2 technology foundation	29,900	-	0%

Trading

Expansion of retail chain			
Expansion of Cai Chi Lim	89,300	61,080	60%
Expansion of Jian Min	59,500	16,210	50%
Logistic center upgrade	20,000	1,000	20%
ERP for trading section upgrade	20,000	5,000	30%
Bio- medicine research centre	80,000	23,000	20%
Additional working capital	50,000	79,690	Note
	100%		
Total	708,300	286,610	-

Note: The proceeds from issue of A shares were approximately Rmb737,990,000. The portion exceeding the budgeted proceeds at Rmb29,690,000 was used as additional working capital.

(i) Project for the technology upgrade and industrialization of new products:

The investment amount of the project involving workshops of pills, syrup, granules "tablets" mull and suppository estimated to be Rmb329,700,000. During the reporting period, the total amount invested was Rmb100,430,000, which mainly used for new construction and purchases of production line and equipment in accordance with GMP requirements. Most technical improvement for Xiu He pill has been completed. During the year, sales increased by Rmb43,010,000 and gross profit increased by Rmb20,670,000, compared with last year. Other projects are still in construction. The implementation of such project ensured that the subsidiaries met the GMP requirements within the stipulated time frame of the State. This enhanced the production capability and competitive edge in the market shares.

(ii) Modernized Chinese Medicine Industrial Base:

The project included modernised chinese medicine industrial base for extraction and purification of Chinese herb especially with CO2 technology. The total investment amount estimated to be Rmb59,800,000. Site selection has been completed. Construction work and invitation for tender is in progress.

(iii) Project for expansion of sales network

Total investment estimated to be Rmb148,800,000. Rmb77,290,000 has been used for increase of 43 new chain stores, with an increased in sales by Rmb64,050,000.

(iv) Technical improvement project for modernized business logistic center in Huanjingwei:

This investment amount estimated to be Rmb20,000,000. As at year-end, Rmb1,000,000 has been used for purchases of necessary equipment.

(v) Technical improvement project for business ERP system:

The investment amount of this project estimated to be Rmb20,000,000.

Rmb5,000,000 has been used for establishment of two servers and some equipment during the reporting period. At present, both the software and hardware is being upgraded to improve the internet and workstation ability.

(vi) Construction project for biological research and development center:

In August 2001, GZ Bai Pi was established. The Company invested an amount of Rmb23,000,000. The register capital of GZ Bai Pi is Rmb20,000,000. The Company owned 82% of its share capital. At present, a 3,000 square meter research and development center is being constructed.

(c) Major investments through the use of funds generated from the Group's operations

With the approval of the Company's second meeting of the 2nd term of the Board, the Company acquired 5,500,000 shares in Everbright Bank of China with a total consideration of Rmb10,725,000. The shares acquired represents 0.093% of the total shares of 5,891,000,000 of the Everbright Bank of China.

(3) Financials

(a) Financial status

Extracted from the accounts prepared in accordance with PRC accounting standards

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	<i>Changes (%)</i>
Total assets	3,697,239	3,017,797	22.51
Long term liabilities	23,854	84,573	-71.79
Shareholders' equity	2,172,910	1,326,404	63.82
Profit from principal activities	1,148,025	1,001,733	14.60
Net profit	146,134	141,214	3.48

Extracted from the accounts prepared in accordance with HK GAPP

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	<i>Changes (%)</i>
Total assets	3,877,969	3,256,426	19.09
Long term liabilities	10,000	65,000	-84.62
Shareholders' equity	2,408,430	1,598,817	50.64
Operating profit	215,384	208,670	3.22
Net profit	95,868	135,250	-29.12

Reasons for changes:

(i) Total assets: During the reporting period, the total assets of the Company increased from Rmb3,018 million to Rmb3,697 million. The major reason in

the increase of the net assets was the proceeds from issue of A shares at Rmb737.99 million.

- (ii) Total liabilities: During the year, the long term liabilities of the Company decreased from Rmb84.57 million to Rmb23.85 million. The major reason was that the Group had repaid the long term loans on time.
- (iii) Shareholders' equity: During the year, the shareholders' equity increased from Rmb1,326 million to Rmb2,173 million. The major reason of the increase was due to proceeds from the issue of A shares and the increase in profit after tax.
- (iv) Profit from principal activities: During the year, the increase of profit from principal activities was due to significant growth in turnover.
- (v) Net profit: Under PRC accounting standards, the net profit for the reporting period was Rmb146 million, representing 3.48% increase from 2000. Due to the changes in tax rate and part of the tax refund has not been received yet, the increase in net profit is less than the increase in profit before tax. Net profit prepared under HK GAAP is Rmb95.87 million and it is less than the net profit prepared under PRC accounting standards by Rmb50.26 million. The major reason for the difference is that the Group has adopted a new accounting policy under the PRC accounting rules and regulation, which required that a provision of impairment charge of Rmb50.12 million to be made. This provision was charged to retained profits according to the relevant PRC regulations. However, this provision was charged in the current year's profit and loss account under HKGAAP.

(b) Liquidity, financial resources and capital structure

As at 31 December 2001, the long-term borrowings of the Group amounted to Rmb10 million. These borrowings are fixed interest loans denominated in Renminbi and repayable within 2003. As at 31 December 2001, the cash and cash equivalent of the Group amounted to Rmb867.41 million of which approximately 87% is denominated in Renminbi and 13% is denominated in Hong Kong dollars.

(c) Capital asset/expenditure

The Group expected that the capital expenditure during 2002 would be approximately Rmb340 million. The Group has sufficient financial resources to meet the capital expenditure plan and daily working capital requirements.

(d) Exposure to fluctuations in exchange rate

As the majority of the revenue, expenses, assets and liabilities of the Group are denominated in Renminbi. Therefore, the Group does not have significant risk in exposure to fluctuations in exchange rate.

(c) Contingent liabilities

Up to 31 December 2001, the Group has no significant contingent liability.

(f) Charge on Group assets

At 31 December 2001, the net book value of fixed assets pledged as security for the Group's bank loans amounted Rmb137,606,000.

(4) Impact of the changes in production environment and macro economy on the Company

According to the relevant regulations issued by the State, preferential tax treatment applicable to listed companies in China, was terminated on 31 December 2001. During the reporting period the Group and the Company was taxed at 33% first, and a refund of 10.8% was made locally (effective tax rate: 22.2%). The tax refund received during the first half of 2001 amounted to approximately Rmb13 million. The refund entitlement estimated at Rmb 18 million for the second half of the year will be received during 2002 after the statutory audited accounts is completed and approved. The Group will be taxed at an official tax rate of 33% from 2002, which will affect the net profit after tax of the Group to a certain extent.

(5) New business plan

In 2002, the planned increase in sales turnover is 10 % over that of 2001.

In 2002, the Group will give priority to those investments utilising the capital raised from the issue of A shares. The Company will continue to take a market-oriented approach and place emphasis on the expansion of markets associated with major products. Emphasis will be placed on promoting the sales of major products outside Guangdong province. The Company will strengthen its R&D capabilities by expediting the technical development of the Company and upgrading the standards of its manufacturing operations. Increased efforts will be made to develop the Company. The Company will further improve the process of optimising the application of its internal resources and will endeavour to lower costs. Efforts will also be made to maximise the utilisation of working capital and seek out new investment opportunities, such as through merger and acquisition. The Company will also endeavour to generate new business that can sustain profits in order to strengthen the core competitiveness of the Company. The specific strategies are as follows:

(a) Implementing of a brand marketing strategy and expanding of the end-user market network

To maintain sustainable development of the manufacturing and trading operations, the Group will adopt a market-oriented approach by focusing on key products and strengthening efforts to expand the sales network through brand advertising. Additionally, the Group will specifically develop a series of product to meet market demand. Through actively promoting the sales of brand name products the Company will ultimately expand the market share of its core products.

(b) Utilising advanced technology to strengthen the development of new product research.

The key factor in research and development is to enhance the process of the modernization of Chinese medicine and the development of bio-chemical products. Its purpose is to further strengthen the Company's core competitiveness and capabilities for continuous development. In 2002, the Company will actively apply for the establishment of the Chinese Medicine Manufacturing Engineering and R&D Center of the State. The Company will speed up the progress of the following Chinese medicine projects: Mao Dong Qing Fu Zhi Na, Si Yi Huan Xi Pian, Jie Yuan Jiao Nang, and accelerate the experimental study on bio-medicine such as DNA hepatitis vaccine and cellular protein. Moreover, there will be a transfer of those projects involving bio-chemical and new products, which were in the experimental stage or have already been granted certification as new products to the production stage. These projects are expected to be produced commercially and bring economic benefits for the Company in the near future.

- (c) Accelerating the progress of technological enhancement and GMP certification procedures

In 2002, the Company will place emphasis on technological enhancement projects undertaken by Kwang Chow First Factory and GZ Xing Qun, and strive to accomplish the procedures of GMP restructuring and certification before 2003.

- (d) Strengthening the Company's management and accelerating the implementation of the ERP system.

In 2002, the Company will firstly accomplish the overall implementation of the ERP system of the manufacturing operations. Secondly, the Company will accelerate the implementation of the ERP system of the trading operations. The Company will strive to complete the implementation of the ERP system in the major departments of Guangzhou Chinese Medicine Corporation and improve the ERP system of Chuangzhou Pharmaceutical Corporation. Thirdly, the Company will set up a data analysis system and ERP data interface. Moreover, the information network will undergo further construction and improvement. Furthermore, the Company will establish its e-commerce platform and actively promote the utilization of e-commerce technology. Finally, the Company will strive to obtain certification for its SAP system.

- (e) Enhancing the Corporate structural reform to fully utilise the advantage of management team.

The Company will continue to encourage the optimal allocation of its internal resources by furthering structural reforms, gradually implementing an incentive system of equity base and optimising the use of modern managerial techniques. In 2002, the Company plans to implement changes in the current wholly owned enterprise structure by undertaking management to hold shares in the Group. In the meantime, the Group will take advantage of the long-range incentive scheme to cultivate and to attract a number of specialised technical and managerial personnel so as to improve the overall quality of the Company.

- (f) Improving the use of funds to facilitate the progress of development

The Group will engage professionals from the capital market to improve on using of funds. By involving strategic investors from both the PRC and overseas, the shareholding of the Company will be diversified. In addition, the Group will explore further opportunities for merger and acquisition and potential investments and to explore new profitable businesses to create a foundation for future development.

In 2002, the Group will continue to strive generating favourable returns for its shareholders.

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

Proposed scheme of profit distribution

- (1) In accordance with the PRC accounting standards, net profit of the Group for 2001 is Rmb146,134,000. After deduction of the negative opening retained earning of Rmb27,438,000, profit available for distribution and transfer is Rmb118,696,000. The Board recommended a final dividend of Rmb 0.06 per share (including withholding tax for A Shares) for the year ended 31 December 2001.

The proposed final dividend, if passed at the annual general meeting on 7 June 2002, will be paid on or before 21 June 2002 to H share shareholders who appear on the shareholders register before 4:00 pm on 13 May 2002 (Wednesday). The registration day of the A share shareholders, date of payment of the dividend, and the method of payment will be announced separately.

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

- (2) Explanation of the difference between current year profit distribution and 2000 annual report's distribution scheme.

The Company was to make two profit distributions in 2001, but only distributed once in 2001. The reason is that under CSRC rules, the financial statements should be audited by local and oversea auditors before making any profit distribution. As the Company expected that the audit would not be finished before the scheduled time, there was no interim dividend proposed in 2001.

- (3) Expected distribution of the year 2002

In 2002, the Company expected to make one profit distribution, the distribution ratio would not be less than 30% of the net profit, the distribution would be in a form of cash. The Company has no plan to transfer capital reserve to share capital in 2002. The Board retains the right to adjust the above expected distribution scheme above.

3. Code of Best Practice

The Company has throughout the year of 2001 complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

4. Other matters

- (1) In order to further establish the modernised enterprise system, the Company will reform its subsidiaries. On 21 December 2001, Kwang Chow First Factory had been restructured into Guangzhou First Chinese Medicine Co., Ltd. On 1 January 2002, Guangzhou Pharmaceutical Corporation had been reformed into Guangzhou Pharmaceutical Corporation Co., Ltd. The change in structure of these two companies involving shares allocated to the management will effectively enhance their continuous development.
- (2) The Company signed a contract with Opalmind International Holding Limited ("Opalmind"), an independent third party on 19 October 2001, to establish Guangzhou Pharmaceutical (England) Co., Ltd. The Company holds 20% of Opalmind's total share through contribution of the usage rights of "Guangzhou Pharmaceutical" and "Cai Chi Lim" in England and the European Union. Opalmind International Holding Limited injected cash and holds 80% of the company's total share. The authorised capital of this limited liability company is GBP 1.5 million. The business scope includes the sale of Chinese Patent Medicine, natural health and nutritional revitalising products, and the opening of chain stores. Up to 31 December 2001, the required legal procedures relating to the establishment of the new company still in progress.
- (3) The Company established a subsidiary called Guangzhou Bai Di on 27 August 2001, the Company holds 82% of total share equity, the Guangzhou Pharmaceutical Industrial Research Department holds 10% and management of the company holds 8%. The registered capital of the company is Rmb20,000,000. The company is a limited liability company, its business is focused on research and development of new medicine and medicine on abstaining from drugs, provides services on methodology research of the new medicine, retail sales and wholesales.
- (4) In 2002 the Company plans to set up an ADR in the USA. Approval from the Securities Exchange Committee of China has been granted to the Company on 27 February 2002. The Company signed an agreement with the Bank of New York on 7 March 2002 and designated the bank as the entrusted bank of its ADR.
- (5) Staff quarters

Pursuant to the Accommodation Service Agreement entered into between the Company and GZPHL on 1 September 1997, GZPHL agreed to sell the staff quarters to the employees of the Group at a preferential price. The Company shall pay to GZPHL the staff quarters reform costs, which represent the difference between the

preferential price and the cost net of depreciation paid by GZPHL on buildings acquired for such staff quarters. For the year ended 31 December 2001, the staff quarters reform costs brought forward from last year, which are payable to GZPHL, amounted to approximately Rmb62,030,000. (2000: Rmb62,030,000)

In addition, the Group had constructed or acquired certain staff quarters in the years before 2000. As at 31 December 2001, the difference between the construction cost or acquisition cost and the revenue from disposal of the quarters totaled Rmb42,437,000. (2000: Rmb42,437,000)

The above mentioned staff quarters reform costs brought forward from last year amounted to Rmb 104,467,000 as at 31 December 2001 (2000: Rmb104,467,000). According to the regulation in Caiqi [2000] No.295, the Notice on accounting Treatment Method of Housing Reform Initiated in Enterprises, issued by the Ministry of Finance, the costs arising there from has been dealt with in retained earnings as at 1 December 2000. Subject to the approval by the Board, any deficit balance should be appropriated to the statutory public welfare fund, statutory surplus reserve fund, and capital reserve. This accounting treatment has been adopted in the accounts prepared in accordance with PRC accounting standards.

For the accounts prepared in accordance with HK GAAP, the staff quarters reform costs have been deferred and amortized on a straight-line basis to the profit and loss account over a period of 10 years, which is the estimated remaining average service life of the employees. The total accumulated amortization as at 31 December 2001 was approximately Rmb25,004,000, (of which, Rmb10,446,000 was amortised in year 2001.). As at 31 December 2001, the net carrying value of the deferred staff quarters reform costs was Rmb79,463,000. In the opinion of the Board of the Company, if the aforesaid deferred staff quarter reform cost had been completely written off in 2000, the consolidated net assets of the Group as as 31 December 2001 would have been reduced by approximately Rmb79,463,000. With respect to the document (Suifu [2000] 18) issued by the Guangzhou Municipal Government on 18 May 2000 concerning the one-time cash accommodation allowance to (i) those employees to whom the Group has not allocated staff quarters and (ii) those aged employees whose allocated staff quarters do not meet required standards, the Directors consider that the said document is not legally binding on the Group. In The Group will formulate its own cash accommodation allowance policy to employees based on the Group's situation.

(6) Statutory information

According to paragraph 45(5) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all the information which is required to be contained in the results announcement of the Company for the year ended 31 December 2001 will be posted on the web site of The Stock Exchange of Hong Kong Limited.

REPORT OF THE SUPERVISORY COMMITTEE

1. Duties of the Supervisory Committee

Four meetings were held by the Supervisory Committee during the reporting period, details of which are as follows:

- (1) The 2nd meeting of the 2nd term of the Supervisory Committee was held on 20 April 2001. The following resolution was passed:
 - discussed and approved the Report of the Supervisory Committee for the year ended 31 December 2000
- (2) The 3rd meeting of the 2nd term of the Supervisory Committee was held on 17 August 2001. The following resolutions were passed:
 - approved 2001 interim result announcement;
 - approved 2001 unaudited interim accounts and 2001 scheme of profit distribution
 - approved to make provisions for impairment loss in accordance with the Enterprise Accounting Standards and to formulate the required internal control policies
 - approved the implementation of the long-range incentive scheme
 - approved the proposal to hold the 2001 1st Extraordinary General Meeting
- (3) the 4th meeting of the 2nd term of the Supervisory Committee was held on 27 September 2001. The following resolutions were passed:
 - approved the connected transaction of acquisition of a property, namely Suikang Building, by Guangzhou Pharmaceutical Corporation, a wholly-owned subsidiary of the Company, from Guangzhou Pharmaceutical Resources Supplying Company, a fellow subsidiary of the Company
 - approved the establishment of independent directors committee
 - approved the proposal to hold the 2001 1st Extraordinary General Meeting
- (4) the 5th meeting of the 2nd term of the Supervisory Committee was held on 18 December 2001. The following resolutions were passed:
 - approve to entrust the Bank of New York to set up an American Depository Receipt in the United States of America
 - approved the resignation of Mr. Chen Xiangzhi, as Director and General Manager, and appointment of Mr. Zhou Yuejin as General Manager
 - approved the proposal of the reformation of Guangzhou Pharmaceutical Corporation and Kwang Chow First Chinese Medicine Factory to limited

liabilites companies.

2. The Supervisory Committee's evaluation of the Company's performance is as follows:

- (1) The operational decisions made by management of the Company during the year are in compliance with the laws and regulations of the State, the Articles of Association, the Hong Kong Listing Rules, and are in the interests of the Company's prospects and its shareholders. The Company's Directors and management have not committed any acts in breach of laws 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 interests.
- (2) The domestic and international auditors will issue unqualified audit reports on the Company's accounts for the year ended 31st December 2001. The accounts prepared by them have been confirmed to reflect fairly the financial position and operating results of the Company.
- (3) The use of the net proceeds from issuing of shares is in line with the plans for the utilisation of proceeds as disclosed in the prospectus of public offering.
- (4) The considerations for the purchase and sales of the assets are reasonable and on arms-length basis. There have been no transactions which harm the interests of shareholders or led to the loss of the Company's assets.
- (5) The connected transactions are on an arms-length basis and do not involve any actions which may harm the interests of the Company.

DISCLOSURE OF SIGNIFICANT EVENTS

1. The Group had no significant litigation or arbitration during the report period.

Guangzhou Chen Li Ji Chinese Medicine Factory, a subsidiary of the Group, was involved in a lawsuit with Hong Kong Chen Li Ji in relation to a dispute in the use of a trade mark and design of packaging of products. The parties had agreed on the settlement before the legal proceedings commenced and had signed an agreement to withdraw from the lawsuit. The Board considered that this case has no significant impact on operation and assets of the Group. In order to let shareholders understand the case, details stated as below:

In August 1997, Hong Kong Chen Li Ji Co., Ltd. and its USA agent So's Ltd brought a litigation to the court of California, USA, against Guangzhou Chen Li Ji Chinese medicine Factory's agent in USA, Guosheng Trade Ltd infringing its right in the trade mark and product packaging of "Chen Li Ji" and "Ji He Tang". In August 1998, the paintiff applied to include Guangzhou Chen Li Ji Chinese Medicine Factory as defendant. In September 2001, before the legal proceedings commenced the plaintiff and defendants underwent a obligatory settlement procedure in Hong Kong according to law of California, USA. In 4 December 2001, representatives of Hong Kong Chen

Li Ji and Guangzhou Chen Li Ji Chinese Medicine Factory signed the agreement in relation to the dispute and agree to withdraw the case. The agreement confirmed that Guangzhou Chen Li Ji Chinese Medicine Factory is the only user of "Chen Li Ji" and "Ji He Tang" within mainland while Hong Kong Chen Li Ji covers Hong Kong, USA, Canada, Australia, Singapore, Malaysia, Thailand, Vietnam, Indonesia, Japan and Taiwan. The agreement also regulated the package and manufacturer's title when one side enters another side's market. Guangzhou Chen Li Ji agreed to pay a compensation of US\$100,000 dollars for legal cost incurred by Hong Kong Chen Li Ji Ltd incurred in USA and Hong Kong. The application for withdraw this case is in process.

2. During the reporting period, there was one merger occurred, according to the decision of the 3rd meeting of the Board of the 2nd term, Kwang Chow First Chinese Medicine Factory merged with Guangzhou Zhongsheng Medicine Factory and for Kwang Chow First Chinese Medicine Factory shall carry out the merger in accordance with the laws and regulations. The merger was completed on 14 August 2001. Guangzhou Zhongsheng Medicine Factory was abolished as a company and all debtors and creditors are borne by Kwang Chow First Chinese Medicine Factory.

Apart from the transaction above, there were no material purchases, sales of assets, or merger and acquisition activities during the report period.

3. Details of significant connected party transactions of the Company during the report period are as follows:

- (1) During the reporting period, the Company engaged in the following related party transaction: Guangzhou Pharmaceutical Corporation (now known as "Guangzhou Pharmaceutical Corporate Limited), a wholly-owned subsidiary of the Company purchased the Suikang Building, which is located at No. 82 Shangxiajiu Road Guangzhou, from Guangzhou Pharmaceutical Resources Supplying Company, a wholly-owned subsidiary of GZPHL, the agreed amount is based on the revaluation value of Rmb39,239,480.

The independent directors committee approved the above connected party transaction and regarded the transaction as being on arm's length. The deal was based on equal, just and fair basis and served the best interests of all shareholders.

The details of the above connected party transactions were disclosed in China Securities, Shanghai Securities Daily, Hong Kong Economic Daily, and Hong Kong iMail on 28 September 2001.

- (2) Other related party transactions had been set out in the notes to the accounts.

4. Major contracts and their implementation

- (1) During the reporting period, the Company did not hold on trust, subcontract 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.

- (2) The Company did not guarantee for any other company during the report period.
- (3) Assets held on trust

With the written approval of the 5th meeting of the 2nd term of the Board of Directors, the Company entrusted Southern Securities Co., Ltd. to invest in state bonds and securities with the internal fund of the Company. The entrusted amount was Rmb 30 million, and the entrusted period was from 26 July 2001 to 31 December 2001. The Company had collected the principal of the investment and earned a profit of Rmb3,160,000 on 31 December 2001.

GZ Chen Li Ji, a subsidiary of the Company entrusted Northeast Securities Co., Ltd. to manage the Company's investment. The entrusted amount is Rmb 20 million, and the entrusted period was from 26 July 2001 to 26 July 2002.

GZ Yang Cheng and GZ Pan Gao Shou, subsidiaries of the Company, entrusted Northeast Securities Co., Ltd. to invest in government bonds. The entrusted amount is Rmb 20 million and Rmb 25 million respectively. The entrusted period was from 26 July 2001 to 26 July 2002.

The Company was involved in no other major contracts.

5. Progress of fulfilling the commitment made by the Company or shareholders holding shares of 5% or above
 - (1) GZPHL, the ultimate holding company, made a commitment to avoid competition with the Company. Regardless of whether GZPHL is either a direct or an indirect shareholder of the Company, GZPHL and its subsidiaries will not engage directly or indirectly in any business that may compete with the Company and its subsidiaries. In addition, GZPHL and its subsidiaries would not engage in researching, manufacturing or selling any products of the same kind as the Company's or its subsidiaries'.

During the reporting period, GZPHL had made an announcement on the competition within the medical business as GZPHL was involved in the reform of Guangzhou Baiyunshan Pharmaceutical Company Limited (GZBYS). A small portion of the products of the Company and GZBYS has business competition. Although the competition would not affect either side's interests or transfer unusual interests between the parties, GZPHL committed that in order to observe the related CSRC's regulations, it would within its power adjust the production structure and resolve the existing business competition within 2 years.

- (2) The use of the net proceeds from the issue of A shares is in accordance with the plans for the utilisation of proceeds as disclosed in the prospectus of public offering. (For detailed information please refer to the usage of the proceeds)
6. In 2001, the Company paid Rmb950,000 and RMB2,450,000 to Guangzhou Yangcheng Certified Public Accountants Co Ltd and PricewaterhouseCoopers

respectively as auditor's remuneration. Of which, Rmb600,000 was paid to Guangzhou Yangcheng Certified Public Accountants Co Ltd for the 2000 audit Rmb200,000 for the 2001 interim review and Rmb150,000 for capital verification Rmb1,960,000 was paid to PricewaterhouseCoopers for the 2000 audit and Rmb490,000 for the 2001 interim review.

7. During the reporting period, the Company, its directors and management, have not incurred any penalties imposed by any of the regulatory bodies.
8. Pursuant to a document [2000] 1063 issued by the Guangzhou Finance Bureau, enterprise income tax of listed companies in Guangzhou city in 2001 will be initially based on the unified tax rate of 33% and the portion over 15% of the tax attributed to local government (i.e., 60% of the 18% of tax) shall be refunded. Accordingly, the effective income tax refund rate is 10.8%. The Company and its major subsidiaries will effectively be taxed at 22.2% in the year 2001. The company had received the local tax refund of approximately Rmb13,000,000 and will be in the first half of the year. It is estimated that the local tax refund of Rmb18,000,000 for the second half of the year will be received in first half of 2002 .

This preferential treatment was terminated on 31 December 2001. From 1 January 2002, the Group will be taxed in accordance with the unified tax rate.

9. The impact of China becoming member of WTO on the future operating activities of the Company.

Included in the legal documentation regarding China's accession to the WTO is the following commitment in respect of the pharmaceutical industry:

(1) to protect intellectual property rights (2) to reduce the custom duties levied on medicine (3) to open the market for the medicine distribution services and medical services (4) to abolish the controls on the importation of large medical apparatus.

The above four terms will have the following impact on the operating activities of the Company:

- (1) The reproduction of patent medicine will be limited. At present, the majority of western drugs in mainland China are generic products. After accession to the WTO, those companies in the industry will be limited to imitating or manufacturing only those products whose patent rights have expired. Otherwise, they must develop new products on their own. Although the Company has a competitive advantage in the CPM manufacturing industry, China's accession to the WTO will have certain impacts.
- (2) China has committed to allow foreign enterprises to provide sales services in China commencing from 2003. The sales services include purchasing, storing and distributing, wholesaling and retail, and provision of after-sales services. The commitment will have a great impact on China's traditional modes of wholesaling and retailing operations.

- (3) The average custom duties levied on imported medicine will decrease by approximately 60%. The percentage will decrease the current rate from 14.2% to about 6%. The reduction in custom duties will result in a 10% decrease in price for imported medicines, thus strengthening their competitiveness. However, for the time being, as there is a large difference between the prices of the Chinese-made and imported medicines. The lower custom duties will have a limited impact on the volumes of imported medicine.

In dealing with the above impacts from WTO accession, the Company has stipulated the following strategies:

(1) to increase the investment in the research of new products and stimulate the utilization of new technology, especially the research and the development of CPM and bio-chemical medicines; (2) to expedite the progress of further development of current products and key products; (3) to place emphasis on the application and enforcement of patents relating to products and technology and the protection of intellectual property rights; (4) to actively adopt the technology of modern logistics management and promote the application of computer network information technology; (5) to expand the sales network and increase the market share of key products.

FINANCIAL REPORTS

1. Accounts prepared in accordance with PRC accounting standards Consolidated Balance Sheet As at 31st December 2001

Asset	<i>Monetary Unit: Renminbi Yuan</i>	
	Closing balance	Beginning balance
Current assets		
Cash	867,407,649.48	488,340,878.45
Short term investment	67,988,074.44	-
Notes receivable	46,710.00	2,596.27
Dividends receivable	6,080,075.49	3,013,835.00
Interest receivable	-	-
Accounts receivable	547,182,576.57	465,904,603.69
Other receivable	134,310,382.41	174,769,981.55
Prepayments	41,166,801.83	8,425,742.30
Subsidy receivable	5,673,006.90	3,142,220.86
Intentories	833,327,684.61	793,748,434.71
Prepaid expenses	72,488,002.63	59,271,091.50
Long term debentures investment due within one year	-	-
Other current assets	-	-
Total current assets	2,575,670,964.35	1,996,619,384.33
Long term investment		

Long term equity investment	107,467,122.39	78,989,944.21
Long term debentures investment	-	187,200.00
Total long term investment	107,467,122.39	79,177,144.21
Fixed assets		
Fixed assets-cost	1,120,412,464.14	973,948,398.77
Less:accumulated depreciation	387,675,891.33	330,510,825.50
Fixed assets-net value	732,736,572.81	643,437,573.27
Less:provision for fixed assets	24,753,795.66	21,504,888.44
Net fixed assets	707,982,777.15	621,932,684.83
Construction supplies	-	-
Construction work in progress	174,211,477.32	191,036,658.07
Disposal of fixed assets	-	(1,500.00)
Total fixed assets	882,194,254.47	812,967,842.90
Intangible assets and other assets		
Intangible assets	102,137,518.11	102,426,482.69
Long term prepaid expenses	29,768,646.47	26,606,042.65
Other long term assets	-	-
Total intangible assets and other assets	131,906,164.58	129,032,525.34
Deferred tax		
Deferred tax debits	-	-
	3,697,238,505.79	3,017,796,896.78
	Closing	Beginning
Liabilities & shareholders' equity	balance	balance
Current Liabilities		
Short-term loans	387,680,000.00	478,000,000.00
Notes payable	682,237.50	-
Accounts payable	558,201,710.52	516,726,227.60
Advance form customers	40,126,980.26	29,738,338.70
Accrued payroll	78,160,241.50	111,024,667.40
Welfare payable	42,466,305.75	33,778.720.32
Dividends payable	49,198,495.25	29,430,097.16
Tax payable	28,911,407.61	45,028,421.51
Other liabilities	3,443,835.26	3,237,358.22
Other payables	151,264,229.61	226,017,338.89
Accrued expenses	4,553,878.05	4,925,873.31
Estimated liabilities	-	-
Long-term liabilities due within one year	45,000,000.00	34,000,000.00
Other current liabilities	-	-
Total current liabilities	1,389,689,321.31	1,511,907,043.11

Long-term liabilities		
Long term loans	10,000,00.00	65,000,000.00
Bonds payable	-	-
Long term payable	8,854,221.43	14,119,798.94
Special payables	-	-
Other long term liabilities	5,000,000.00	5,453,431.26
Total long term liabilities	23,854,221.43	84,573,230.20
Deferred tax:		
Deferred tax credits	-	-
Total liabilities	1,413,543,542.74	1,596,480,273.31
Minority shareholders' equity	110,785,180.18	94,912,997.51
Shareholders' equity		
Share capital	810,900,000.00	732,900,000.00
Less: investment returned	-	-
Net share capital	810,900,000.00	732,900,000.00
Capital surplus	1,110,457,074.10	445,108,742.81
Reserved fund	251,020,754.95	175,832,695.73
Including: public welfare fund	92,757,528.43	72,431,278.39
Retained earnings	531,953.81	(27,437,812.57)
Total shareholders' equity	2,172,909,782.87	1,326,403,625.96
Total liabilities and shareholders' equity	3,697,238,505.79	3,017,796,896.78

**Consolidated Profit and Loss Account
For the year ended 31 December 2001**

		<i>Monetary Unit: Renminbi Yuan</i>	
Item		Current accumulated	Last accumulated
1	Sales	5,334,028,710.18	4,222,857,015.97
	Less: Cost of sales	4,163,902,618.51	3,201,331,862.39
	Less: Sales tax and levies	22,101,346.38	19,792,568.06
2	Profit from principal operations	1,148,024,745.29	1,001,732,585.52
	Add: Profit from other operations	36,060,658.31	36,439,662.67
	Less: Operating expenses	392,775,296.09	348,172,061.02
	Less: General and administrative expenses	521,682,481.40	466,504,180.72
	Less: Financial expenses	7,203,000.95	27,913,527.64
3	Operating profit	262,424,625.16	195,582,478.81
	Add: Revenue from investment	(840,626.60)	4,647,887.81
	Add: Subsidy income	3,511,998.57	9,288,486.45
	Add: Non-operating income	6,524,440.99	18,407,208.86

	Less: Non-operating expenses	11,483,024.46	12,787,569.70
4	Total profit	260,137,413.66	215,138,492.23
	Less: Income tax	103,209,535.64	62,956,600.32
	Less: Loss and gain of minority shareholders	10,794,037.41	10,967,660.76
5	Net profit	146,133,840.61	141,214,231.15

Supplemental Information

No.	Item	Current accumulated	Last accumulated
1	Revenue from sale or disposal of department or invested company	595,612.06	-
2	Loss occurred from natural disaster	-	-
3	Total profit increased (decreased) due to accounting policy alteration	-	(5,019,951.62)
4	Total profit increased (decreased) due to accounting estimation alteration	-	-
5	Loss from debts reconstruction	-	-
6	Others	-	-

Consolidated Profit Appropriation Statement For the year ended 31 December 2001

Item	Monetary Unit Renminbi Yuan	
	Current accumulated	Last accumulated
1. Net profit	146,133,840.61	141,214,231.15
Add: Retained earnings brought forward	(27,437,812.57)	(75,301,031.07)
Add: Transfer from others	-	-
2. Profit distributable	118,696,028.03	65,913,200.08
Less: Transfer to statutory surplus reserves	26,095,588.94	32,632,400.69
Less: Transfer to public welfare fund	18,589,803.77	32,632,300.80
Less: Transfer to staff bonus and welfare fund	1,334,327.55	976,655.58
Less: Transfer to reserve fund	667,163.78	488,327.79
Less: Enterprise expansion fund	667,163.78	488,327.79
Less: Profit returned to investment	-	-
3. Profit distributable to shareholders	71,341,980.21	(1,304,812.57)
Less: Dividend for preferred shares	-	-
Less: Transfer to discretionary surplus reserves	22,156,026.40	-
Less: Dividend for ordinary shares	48,654,000.00	26,133,000.00
Less: Dividend for ordinary shares transfer to share capital	-	-

4.	Retained earnings	531,953.81	(27,437,812.57)
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**Consolidated Cash Flows Statement
For the year ended 31 December 2001**

		<i>Monetary Unit: Renminbi Yuan</i>	
Item			Amount
I.	Cash flow from operating activities		
	Cash received from sales of goods or rendering services	6,205,940,804.18	
	Refund of tax and levy	14,918,951.66	
	Other cash received relating to operating activities	233,569,168.25	
	Subtotal of cash inflows	6,454,428,924.09	
	Cash paid for goods or services	4,901,928,652.66	
	Cash paid to or on behalf of employees	433,834,965.83	
	Taxes paid	437,450,763.68	
	Other cash paid in relation to operating activities	541,060,331.92	
	Subtotal of cash outflows	6,314,274,714.09	
	Net Cash flow from operating activities	140,154,209.99	
II.	Cash flow from investing activities		
	Cash received from sale of investments	231,896.00	
	Cash received from investment income	5,413,764.22	
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,899,405.95	
	Other cash received from investing activities	4,357,556.00	
	Subtotal of cash inflows	12,902,622.17	
	Cash paid to acquire fixed assets, intangible assets and other long-term assets	160,436,118.56	
	Cash paid to acquire investments	95,038,074.44	
	Other cash paid in relation to investing activities	41,014,249.91	
	Subtotal of cash outflows	296,488,442.91	
	Net Cash flows from investing activities	-283,585,820.74	
III.	Cash flows from financing activities		
	Proceeds from acquiring investments	764,400,000.00	
	Cash received from minority shareholders equity investment of subsidiaries	13,622,178.00	
	Proceeds from borrowings	417,680,000.00	
	Other proceeds relating to financing activities	543,895.00	
	Subtotal of cash inflows	1,196,246,073.00	
	Cash repayments of amounts borrowed	635,753,109.28	
	Cash payments for distribution of dividends,		

profits or interest expenses	6,364,601.91
Cash payment for minority shareholders of subsidiaries	4,118,529.11
Other cash payments relating to financing activities	27,602,697.22
Subtotal of cash outflows	673,838,937.52
Net Cash Flows from Financing Activities	522,407,135.48
IV. Effect of foreign exchange rate changes on cash	91,246.30
V. Net Increase in cash and cash equivalents	379,066,771.03

Supplemental Information	Amount
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1. Reconciliation of net profit to cash flows from operating activities	
Net profit	146,133,840.61
Loss & gain of minority shareholders	10,794,037.41
Add: Provision of value impairment of assets	3,043,046.36
Depreciation of fixed assets	67,497,049.83
Amortization of intangible assets	3,143,805.97
Amortization of long- term prepaid expenses	12,980,806.82
Decrease in prepaid expenses (less: increase)	- 13,216,911.13
Increase in accrued expenses (less: decrease)	- 371,995.26
Losses on disposal of fixed assets, intangible assets and other long- term assets (less: gains)	334,292.48
Losses on scrapping of fixed assets	629,466.05
Financial expenses	10,467,856.30
Losses on investment (less: gain)	- 840,626.60
Deferred tax credit (less: debit)	-
Decrease in inventories (less: increase)	- 39,579,249.90
Decrease in operating receivables (less: increase)	- 86,808,793.39
Increase in operating payables (less: decrease)	25,751,821.93
Others	195,762.52
Net cash flows from operating activities	140,154,209.99
2. Investing and financing activities that don't involve in cash receipts or payments	
Repayment of debts by the transfer of investments	-
Convertible bonds due within one year	-
Fixed assets obtained by financing lease	-
3. Net increase in cash and cash equivalents	
Cash at the end of period	867,407,649.48
Less: cash at the beginning of period	488,340,878.45
Add: Cash equivalents at the end of period	-
Less: Cash equivalents at the beginning of period	-

Net increase in cash and cash equivalents

379,066,771.03

**Balance Sheet
as at 31st December 2001**

	<i>Monetary unit: Renminbi Yuan</i>	
	Closing	Beginning
Asset balance	balance	
Current assets		
Cash	333,582,586.83	128,224,828.98
Short term investments	3,051,935.55	-
Notes receivable	-	-
Dividends receivable	20,710,385.91	3,399,486.99
Interest receivable	-	-
Accounts receivable	-	-
Other receivables	340,009,236.97	240,604,539.88
Prepayments	-	-
Subsidy receivable	-	-
Inventories	-	-
Prepaid expenses	-	-
Long-term debentures investment due within one year	-	-
Other current assets	-	-
Total current assets	697,354,145.26	372,228,855.85
Long term investments		
Long term equity investment	1,511,549,290.82	1,034,179,534.34
Long term debentures investment	-	-
Total long term investment	1,511,549,290.82	1,034,179,534.34
	Closing	Beginning
Asset	balance	
Fixed assets		
Fixed assets - cost	30,074,896.76	26,325,190.76
Less: accumulated depreciation	4,833,509.98	3,064,431.00
Fixed assets - net value	25,241,386.78	23,260,759.76
Less: provisions for fixed assets	-	-
Net fixed assets	25,241,386.78	23,260,759.76
Construction materials	-	-
Construction work in progress	-	-
Disposal of fixed assets	-	-
Total fixed assets	25,241,386.78	23,260,759.76
Intangible assets and other assets		
Intangible assets	-	-

Long term prepaid expenses	2,209,641.77	3,035,773.13
Other long-term assets	-	-
Total intangible assets and other assets	2,209,641.77	3,035,773.13
Deferred tax		
Deferred tax debits	-	-
Total assets	2,236,354,464.63	1,432,704,923.08

Liabilities and shareholders' equity

Current liabilities		
Short term loans	-	30,000,000.00
Notes payable	-	-
Accounts payable	-	-
Advance from customers	-	-
Accrued payroll	2,629,148.66	2,629,148.66
Welfare payable	2,098,445.50	1,508,741.73
Dividends payable	48,676,906.39	24,357,008.29
Tax payable	316,535.72	67,207.95
Other liabilities	11,116.36	7,577.98
Other payables	6,230,507.00	41,762,503.53
Accrued expenses	2,300,000.00	3,090,965.00
Estimated liabilities	-	-
Long-term liabilities due within one year	-	-
Other current liabilities	-	-
Total current liabilities	62,262,659.63	103,423,153.14
Long-term liabilities	-	-
Long term loans	-	-
Bonds payable	-	-
Long term payable	-	-
Special payables	-	-
Other long term liabilities	-	-
Total long term liabilities	-	-
Deferred tax		
Deferred tax credits	-	-
Total liabilities	62,262,659.63	103,423,153.14
Shareholders' equity		
Share capital	810,900,000.00	732,900,000.00
Less: investment returned	-	-
Net share capital	810,900,000.00	732,900,000.00
Capital surplus	1,110,457,074.10	445,108,742.81
Reserved fund	101,507,382.18	78,990,026.61

Including: public welfare fund	44,411,290.37	36,905,505.18
Retained earnings	151,227,348.71	72,283,000.52
Total shareholders' equity	2,174,091,805.00	1,329,281,769.94
Total liabilities and shareholders' equity	2,236,354,464.63	1,432,704,923.08

**Profit and Loss Account
For the year ended 31 December 2001**

Item	<i>Monetary Unit: Renminbi Yuan</i>	
	Current accumulated	Last accumulated
1 Sales	-	-
Less: Cost of sales	-	-
Less: Sales taxes and levies	-	-
2 Profit from principal business	-	-
Add: Profit from other operations	5,102,306.96	2,433,359.33
Less: Operating expenses	-	-
Less: General and administrative expenses	22,771,419.12	13,594,661.68
Financial expenses	(15,726,448.75)	(5,357,377.21)
3 Operating profit	(1,942,663.41)	(5,803,925.14)
Add: Revenue from investment	152,275,101.82	154,736,079.55
Add: Subsidy revenue	-	-
Add: Revenue from non-operating business	83.13	10,344.91
Less: Expenses for non-operating business	216,817.78	138,279.72
4 Total profit	150,115,703.76	148,804,219.60
Less: Income tax	-	-
5 Net profit	150,115,703.76	148,804,219.60

Supplemental information:

No.	Item	Current accumulated	Last accumulated
1	Revenue from sale or disposal of department or invested company	-	-
2	Loss due to natural disaster	-	-
3	Total profit increased (decreased) due to alteration of accounting policy	-	(5,019,951.62)
4	Total profit increased (decreased) due to alteration of accounting estimation	-	-

5	Loss from debts reconstruction	-	-
6	Others	-	-

Profit Appropriation Statement
For the year ended 31 December 2001

Item	Last	<i>Monetary Unit Renminbi Yuan</i>	
		Current accumulated	accumulated
1.	Net profit	150,115,703.76	148,804,219.60
	Add: Retained earnings brought forward	72,283,000.52	(9,248,845.64)
	Add: Transfer from others	-	-
2.	Profit distributable	222,398,704.28	139,555,373.96
	Less: Transfer to statutory surplus reserves	15,011,570.38	14,143,686.72
	Less: Transfer to public welfare fund	7,505,785.19	14,143,686.72
	Less: Transfer to staff bonus and welfare fund	-	-
	Less: Transfer to reserve fund	-	-
	Less: Enterprise expansion fund	-	-
	Less: Profit returned to investment	-	-
3.	Profit distributable to shareholders	199,881,348.71	111,268,000.52
	Less: Dividend for preferred shares	-	-
	Less: Transfer to discretionary surplus reserves	-	-
	Less: Dividend for ordinary shares	48,654,000.00	38,985,000.00
	Less: Dividend for ordinary shares transfer to share capital	-	-
4.	Retained earnings	151,227,348.71	72,283,000.52

Cash Flows Statement
For the year ended 31 December 2001

Item	<i>Monetary Unit: Renminbi Yuan</i>	
		Amount
I.	Cash flow from operating activities	
	Cash received from sales of goods or rendering services	-
	Refund of tax and levy	-
	Other cash received relating to operating activities	16,037,734.04
	Subtotal of cash inflows	16,037,734.04
	Cash paid for goods or services	-
	Cash paid to or on behalf of employees	6,133,666.97
	Taxes paid	209,253.69
	Other cash paid in relation to operating activities	11,022,265.70
	Subtotal of cash outflows	17,365,186.36

Net cash flow from operating activities	-1,327,452.32
II. Cash flow from investing activities	
Cash received from sale of investments	30,000,000.00
Cash received from investment income	76,255,843.38
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	-
Other cash received from investing activities	-
Subtotal of cash inflows	106,255,843.38
Cash paid to acquire fixed assets, intangible assets and other long-term assets	4,063,206.00
Cash paid to acquire investments	434,769,427.74
Other cash paid in relation to investing activities	120,710,853.09
Subtotal of cash outflows	559,543,486.83
Net cash flows from investing activities	-453,287,643.45
III. Cash flows from financing activities	
Proceeds from acquiring investments	764,400,000.00
Proceeds from borrowings	-
Other proceeds relating to financing activities	-
Subtotal of cash inflows	764,400,000.00
Cash repayments of amounts borrowed	56,325,500.00
Cash payments for distribution of dividends, profits or interest expenses	24,334,101.90
Other cash payments relating to financing activities	23,858,822.28
Subtotal of cash outflows	104,518,424.18
Net cash flows from financing activities	659,881,575.82
IV. Effect of foreign exchange rate changes on cash	91,277.80
V. Net Increase in Cash and Cash Equivalents	205,357,757.85

2. Notes to financial reports prepared in accordance with PRC accounting standards

(1) Changes in accounting policies and accounting estimates

The Group used to adopt "the Accounting Regulations of PRC for Stock Company with Limited Liabilities". According to the documents - "Notice on Issuance of 'Accounting Regulations for Business Enterprises' " with reference CKZ[2000] No.25 by the Ministry of Finance and "Notice on Issuance of Stipulation related to Policy Alteration in the Implementation of 'Accounting Regulations for Business Enterprises' ", with reference CKZ[2001] No. 17, and upon the approval of the Board of Directors, the Group began to adopt "Accounting Regulations for Business Enterprises" from 1 January 2001 and changed its accounting policies as following:

(a) Fixed assets at the period end are priced at the lower of book value and the

recoverable amount instead of original cost. In case the recoverable amount is lower than the book value, allowance will be provided for the difference.

- (b) Construction work in progress at the period end is priced at the lower of book value and the recoverable amount instead of original cost. In case the recoverable amount is lower than the book value, allowance will be provided for the difference.
- (c) Intangible assets at the period end are priced at the lower of book value and the recoverable amount instead of original cost. In case the recoverable amount is lower than the book value, allowance will be provided for the difference.

The Company has applied retrospectively for the aforesaid changes in accounting policies and adjusted opening balance of retained earnings and other items. The accumulated amounts of last year in the income statement and the profit appropriation statement have been also adjusted. Such changes of accounting policies led to a decrease of RMB28,021,923.81 to the opening balance of retained earnings, a decrease of RMB18,243,272.21 to the opening balance of the reserved fund, a decrease of RMB5,019,951.62 to the net profit of the year 2000, and a decrease of RMB24,669,668.79 to the opening balance of retained earnings of the year 2000.

(2) Changes in the consolidation scope

- (a) Kwang Chow First Chinese Medicine Factory (the present Guangzhou Zhong Yi Pharmaceutical Co., Ltd.) merged Guangzhou Zhong Sheng Pharmaceutical Factory in the reporting period. Consequently, Guangzhou Zhong Sheng Pharmaceutical Factory is not included in the consolidation scope any longer.
- (b) Subsidiaries with over 50% equity interest held by the Company but not included in the consolidation scope are as follows:
 - (i) The Company holds 90%, 82% and 80% equity interest respectively in Guangzhou Hanfang Chinese Patent Medicine Innovation Center Co., Ltd. (named as Guangzhou Guangjing Chinese Patent Medicine Innovation Center Co., Ltd. before), Guangzhou Baidi Bio-medicine Co., Ltd. and Guangzhou Medicine Commodities Exhibition Store, but does not include them in the consolidation based on the material principle since their total assets, sales and net profit which the Company is entitled to for each period are all below 10% of those of the total of the Company and its subsidiaries.
 - (ii) The Company holds 51% and 53% equity interest of Guangzhou Xing Qun Trading and development Co., Ltd. and Guangdong Xinghua Health Drink Co., Ltd. respectively, but does not include them in the consolidation as the Company does not have substantial control over these two companies pursuant to relevant contracts and articles of association.
 - (iii) Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of Guangzhou Qi Xing Pharmaceutical Factory, is an enterprise with foreign

investment which still apply "Accounting Regulation of PRC for Enterprises with Foreign Investment " and did not provide provision for asset value impairment in accordance with "Accounting Regulations for Business Enterprises". The Company made an adjustment for such provision for value impairment of assets while preparing the consolidated financial statements according to the accounting policy disclosed in "Principle Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements".

**3. Results prepared in accordance with HKGAAP
Consolidated profit and loss account
For the year ended 31 December 2001**

		2001	As restated
	<i>Note</i>	Rmb'000	2000
			<i>Rmb'000</i>
Turnover	1	5,334,029	4,222,857
Cost of sales		(4,165,306)	(3,201,332)
Gross profit		1,168,723	1,021,525
Other revenues	1	73,734	82,708
Distribution costs		(414,876)	(367,132)
Administrative expenses		(575,151)	(481,234)
Other operating expenses		(7,320)	(7,990)
Operating profit before finance cost	2	245,110	247,877
Finance costs	3	(29,726)	(39,207)
Operating profit		215,384	208,670
Share of profits less losses of			
Jointly controlled entities		(9,906)	(841)
Associated companies		509	(3,257)
Profit before taxation		205,987	204,572
Taxation	4	(105,084)	(59,745)
Profit after taxation		100,903	144,827
Minority interests		(5,035)	(9,577)
Net profit for the year		95,868	135,250
Dividends	5	48,654	38,985
Earnings per share	6	Rmb0.119	Rmb0.185

Notes:

(1) Turnover, revenue and segment information

The Group is principally engaged in the manufacture and sales of CPM and the wholesale, retail, import and export of Western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus. Revenues recognised during the year are as follows:

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Turnover:		
Sales of goods	5,334,029	4,222,857
Other revenues:		
Subsidies (Note)	3,061	21,896
Interest income	22,523	13,947
Gross rental income from investment properties	20,932	20,508
Other gross rental income net of outgoings	8,608	8,374
Promotional income from suppliers	8,755	9,466
Royalty income	1,127	1,492
Income from unlisted investments	8,728	7,025
	73,734	82,708
Total revenues	5,407,763	4,305,565

Note: Rmb3,061,000 (2000: Rmb8,711,000) has been received by certain subsidiaries from local government as subsidies for technical development. According to the approval documents, the Group is required to transfer from profit after taxation an amount equal to the subsidies received to the capital reserve account.

The Group is organised into the following business segments:

Manufacturing of Chinese patent medicine.

Wholesale of western pharmaceutical products, Chinese patent medicine, Chinese raw medicine and medical apparatus.

Retail of western pharmaceutical products, Chinese patent medicine, Chinese raw medicine and medical apparatus.

Import and export of western pharmaceutical products

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

No geographical analysis of turnover and operating profit is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributed to markets outside PRC.

	Manufacturing 2001 Rmb'000	Wholesale 2001 Rmb'000	Retail 2001 Rmb'000	Import and export 2001 Rmb'000	Elimination 2001 Rmb'000	Group 2001 Rmb'000
Turnover						
External	1,634,887	3,281,570	357,170	60,402	-	5,334,029
Internal	29,711	274,911	-	-	(304,622)	-
Total	1,664,598	3,556,481	357,170	60,402	(304,622)	5,334,029
Segment results	176,984	66,287	7,449	1,513	(10,970)	241,263
Unallocated costs						3,847
Operating profit						245,110
Finance costs						(29,726)
Share of profits less losses of						
Jointly controlled entities	(9,906)	-	-	-	-	(9,906)
Associated companies	509	-	-	-	-	509
Profit before taxation						205,987
Taxation						(105,084)
Profit after taxation						100,903
Minority interests						(5,035)
Net profit						95,868
Segment assets	1,597,486	1,253,447	183,256	64,784	(85,017)	3,013,956
Investments in jointly controlled entities	29,832	-	-	-	-	29,832
Investments in associated companies	2,912	-	-	-	-	2,912
Unallocated assets						831,269
Total assets						3,877,969
Segment liabilities	340,910	935,140	75,382	47,746	(85,017)	1,314,161
Unallocated liabilities						31,680
Total liabilities						1,345,841
Capital expenditure	84,230	56,706	8,364	218	-	149,518
Depreciation	58,882	24,457	2,101	239	-	85,679
Amortisation charge	7,401	3,015	-	30	-	10,446
Impairment charge	37,947	9,807	2,365	-	-	50,119

Import

	Manufacturing 2000 <i>Rmb'000</i>	Wholesale 2000 <i>Rmb'000</i>	Retail 2000 <i>Rmb'000</i>	and export 2000 <i>Rmb'000</i>	Elimination 2000 <i>Rmb'000</i>	Group 2000 <i>Rmb'000</i>
Turnover						
External	1,295,155	2,469,538	388,807	69,357	-	4,222,857
Internal	110,330	70,689	-	-	(181,019)	-
Total	1,405,485	2,540,227	388,807	69,357	(181,019)	4,222,857
Segment results	181,365	61,042	12,471	942	(3,719)	252,101
Unallocated costs						(4,224)
Operating profit						247,877
Finance costs						(39,207)
Share of profits less losses of						
Jointly controlled entities	(841)	-	-	-	-	(841)
Associated companies	(3,257)	-	-	-	-	(3,257)
Profit before taxation						204,572
Taxation						(59,745)
Profit after taxation						144,827
Minority interests						(9,577)
Net profit						135,250
Segment assets	1,564,355	1,089,687	132,206	29,787	(28,893)	2,787,142
Investments in jointly controlled entities	39,738	-	-	-	-	39,738
Investments in associated companies	2,967	-	-	-	-	2,967
Unallocated assets						426,579
Total assets						3,256,426
Segment liabilities	547,262	864,244	55,735	21,415	(28,893)	1,459,763
Unallocated liabilities						106,705
Total liabilities						1,566,468
Capital expenditure	97,606	58,140	9,830	94	-	165,670
Depreciation	50,877	11,933	1,872	201	-	64,883
Amortisation charge	7,403	3,015	-	30	-	10,448

(2) Operating profit before finance costs

Operating profit before finance costs is stated after crediting and charging the

following:

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Crediting		
Written off of negative goodwill arising on increase in interest of subsidiaries	4,526	-
Charging		
Depreciation and amortization of fixed assets	85,679	64,883
Impairment charge (Note)	50,119	-
Outgoings in respect of investment properties	3,971	4,070
Loss on disposal of fixed assets	655	895
Loss on disposal of investment securities	-	3,685
Research and development costs	17,624	9,429
Auditors' remuneration	3,400	2,500
Staff costs:		
Amortisation of deferred expenditures	10,446	10,448
Retirement benefit costs	64,544	62,075
Salaries, wages and other welfare benefits	376,147	354,106
Operating leases for land and buildings	26,327	21,829

Note: Impairment charge included

	<i>Rmb'000</i>
Fixed assets	38,191
Construction in progress	11,928
	50,119

Impairment charge mainly arose as a result of technology upgrade and modernization of production facilities.

(3) Finance costs

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Interest on bank loans and overdrafts	30,504	43,143
Other incidental borrowing costs	513	1,281
Total borrowing costs incurred	31,017	44,424
Less: interest capitalised in construction in progress	(1,291)	(5,217)

29,726 39,207

The capitalisation rate applied to funds borrowed generally used for the development of construction in progress is approximately 5.94% (2000: 5.94%).

(4) Taxation

	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
The amount of taxation charged to the consolidated profit and loss account represents:		
PRC enterprise income tax	104,912	59,525
Share of taxation attributable to Jointly controlled entities	-	-
Associated companies	172	220
	105,084	59,745

Pursuant to a document [2000] 1063 issued by the Guangzhou Finance Bureau, enterprise income tax of listed companies in Guangzhou city in 2001 would be initially based on the unified tax rate of 33% and the portion over 15% of the tax attributable to local government shall be refunded (i.e. 60% of the 18% of tax). Accordingly, the effective income tax refund rate is 10.8%. The Company and its major subsidiaries would effectively be taxed at 22.2% in the year 2001.

During the year, tax refund of Rmb13,016,000 (2000: Nil) has been received for tax paid during January 2001 to June 2001 and the amount has been net off against tax charges for the year. Tax refund for the second half of year is still under application to the relevant authorities, and is expected to be received in 2002. This tax refund will be accounted for when received.

Companies comprising the Group that are incorporated outside the PRC are liable to pay income tax on their taxable income in accordance with the tax laws of the countries in which they operated.

There was no material unprovided deferred taxation for the year (2000: Nil).

(5) Dividends

	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interim, paid, of Rmb Nil (2000 : Rmb0.02) per share	-	14,658
Final, proposed, of Rmb 0.06		

(2000 : Rmb0.03) per share	48,654	24,327
	48,654	38,985

Notes:

- (a) In accordance with the revised SSAP 9(revised)-Events after the balance sheet date, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31 December 1999 and 2000 were Rmb21,987,000 and Rmb24,327,000 respectively. Under the Group's new accounting policy as described above, these have been written back against opening reserves as at 1 January 2000 and 2001 and are now charged in the period in which they were proposed.

As detailed in Note 7, this change has resulted in an increase in opening retained earnings at 1 January 2001 by Rmb24,327,000 (1 January 2000: Rmb21,987,000) which is the reversal of the provision for 2000 (1999) proposed final dividend previously recorded as a liability as at 31 December 2000 (31 December 1999) although not declared until after the balance sheet date.

- (b) At a meeting held on 4 April 2002 the directors declared a final dividend of Rmb48,654,000 ordinary share. The proposed dividend is not reflected as dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2001.

(6) Earnings per share

The calculation of earnings per share for the year ended 31 December 2001 is based on the net profit of Rmb95,868,000 (2000: Rmb135,250,000) and the weighted average number of 808,976,712 shares (2000: 732,900,000 shares) in issue.

(7) Retained earnings

	Group <i>Rmb'000</i>
At 1 January 2000 as previously reported	33,798
Effect of adopting SSAP 9 (Revised)	21,987
At 1 January 2000, as restated	55,785
1999 Final dividend paid	(21,987)
Net profit for the year	135,250

Transfer to reserves funds	(95,393)
Profit attributable to shareholders	39,857
Transfer from reserves funds	55,235
2000 Interim dividend paid	(14,658)
	114,232
Representing:	
2000 Final dividend proposed	24,327
Other	89,905
At 31 December 2000	114,232
Company and subsidiaries	118,094
Jointly controlled entities	(2,261)
Associated companies	(1,601)
Retained earnings at 31 December 2000	114,232
At 1 January 2001, as previously reported	89,905
Effect of adopting SSAP 9 (Revised)	24,327
At 1 January 2001, as restated	114,232
2000 Final dividend paid	(24,327)
Net profit for the period	95,868
Transfer to reserves funds	(76,339)
Profit attributable to shareholders	19,529
Transfer from reserves funds	16,519
	125,953
Representing:	
2001 Final dividend proposed	48,654
Other	77,299
Retained earnings at 31 December 2001	125,953
Company and subsidiaries	139,777
Jointly controlled entities	(12,167)
Associated companies	(1,657)
At 31 December 2001	125,953

4th April 2002

**Board of Directors of
Guangzhou Pharmaceutical Company Limited**

ANNOUNCEMENT OF THE RESOLUTIONS PASSED AT THE 13TH MEETING OF THE 2ND TERM OF THE BOARD OF DIRECTORS TOGETHER WITH THE NOTICE OF THE 2001 ANNUAL GENERAL MEETING

Guangzhou Pharmaceutical Company Limited's (the "Company") 13th meeting of the 2nd term of the Board of Directors, which was held on 4 April 2002 in the conference room of the Company's premises at 2nd Floor, 45 Sha Mian North Street, Guangzhou Province, the People's Republic of China (the "PRC") was attended by all nine eligible directors; Mr. Cai Zhixiang, the Chairman of the Company presided over the meeting; and the Company's supervisors and senior management have also attended the meeting. The meeting was in accordance with the Company Law of the PRC and the Company's articles of association. After detailed discussion, all of the directors in attendance agreed on the following resolutions:

1. considered and approved the directors' report for the year 2001;
2. considered and approved the report of the Supervisory Committee for the year 2001;
3. considered and approved the audited accounts for the Company for the year 2001;
4. considered and approved the auditors' reports for the year 2001;
5. considered and approved the reappointment of the retiring auditors' (Guangzhou Yangcheng Certified Public Accountants Co. Ltd.) and the international auditors (PricewaterhouseCoopers) and to authorise the Board to determine their respective remunerations;
6. considered and approved the resolution of profit distribution and dividend payment for the year 2001;
 - i) the profit distribution and dividend payment of the Company and its related enterprises are to be as follows:
 - a) the related enterprises are to transfer 10% to the statutory surplus reserve fund; 10% to the statutory public welfare reserve; 20% to the discretionary surplus reserve.
 - b) the Company is to transfer 10% to the statutory surplus reserve fund; 10% to the statutory public welfare reserve; no transfer is to be made to the discretionary surplus reserve.
 - ii) Following the above, the Company's consolidated net profit available for distribution will be Rmb49.185 million, the full year dividend for 2001 is recommended to be Rmb0.06 per share (inclusive of tax for 'A' shares), the total amount of dividends to be distributed amounts to Rmb48.654 million,

which leaves Rmb0.53 million as retained earnings.

7. considered and approved the projected net profit distribution policy for the Company in 2002;

the Company proposes that there will be only one dividend distribution in 2002; the amount to be apportioned as dividend will not be lower than 30% of the net profit and this will be distributed in the form of cash; the Company does not plan to make any conversions from surplus reserve into capital.

8. considered and approved the amount of emoluments to be paid to the directors and supervisors of the Company;

it is proposed that in 2002, the emoluments for the Company's directors and supervisors will be Rmb2.5 million and Rmb0.45 million respectively, a total of Rmb2.95 million.

9. considered and approved amendments to the Company's articles of association; (see attached announcement)

10. considered and approved the rules and procedures for general meetings;

11. considered and approved the rules and procedures for directors meetings;

12. considered and approved the rules for the system of independent directors;

13. considered and approved the system for releasing information to the market;

14. considered and approved the system of work for the general manager;

15. considered and approved the resolution regarding the long-term incentive mechanism for the Company in 2002:

- i) eligible parties: chairman, vice chairman, directors (does not include independent directors), supervisors (does not include external supervisors), general managers, deputy general managers, financial controllers, company secretary, middle management and principal technicians.

- ii) profit target: based on PRC accounting standards, the profit target for 2002 will be at the profit to net asset ratio of 12% (excluding all non-operating factors).

A resolution will be proposed at the shareholder's meeting to authorise the board of directors to set profit target each year at the directors' meeting. The profit target will be at a level not below the above-mentioned and will be set with reference to the situation at the time. The profit target for the current year will be released at the same time when the prior year's annual report is announced.

- iii) distribution of incentive fund: the actual annual allocation to the incentive

fund to reward the eligible parties will be based on the financial results under the PRC accounting standards and will not exceed 1.78% of that year's profit. The amount will be allocated to the incentive fund as operating cost for that year.

A resolution will be proposed at the shareholder's meeting to authorize the board of directors to set the allocation ratio. The ratio will be at a level not exceeding the above-mentioned and will be set with reference to the situation at the time. The ratio for the current year will be released at the same time when the prior year's annual report is announced.

16. Considered and approved the proposal to be proposed at the 2001 annual general meeting to authorise the directors to allot and issue new shares (H shares):
 - a) subject to paragraphs c) and d) and pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) and the Company Law of the PRC and other relevant regulations, the exercise by the directors of all the powers of the Company to allot and issue new shares, either separately or concurrently during the Relevant Period and the exercise of powers by the directors to determine the terms and conditions for the allotment and issue of new shares including the following terms:
 - i) number of new shares to be issued;
 - ii) issue price of new shares;
 - iii) the starting and closing time for the issue;
 - iv) class and number of the new shares to be issued to existing shareholders; and
 - v) the making or granting of offers, agreements and options which might require the exercise of such powers.
 - b) the approval in paragraph (a) shall authorise the directors during the Relevant Period to make grant offers, agreements and options which would or might be exercised after the end of the Relevant Period.
 - c) the aggregate nominal amount of overseas listed foreign shares and domestic shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors pursuant to the approval in paragraph a), otherwise than pursuant to issue of shares by conversion of the statutory surplus reserve into capital in accordance with the Company Law of the PRC and the articles of association of the Company and other relevant regulations, shall not exceed twenty per cent (20%) of each of the existing overseas listed foreign shares and domestic shares of the Company.
 - d) in exercising the powers granted under paragraph (a), the directors must (1)

comply with the Company Law of the PRC and other relevant regulations and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time); and (2) obtain approval from the China Securities Regulatory Commission.

e) For the purpose of this Resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

- 1) twelve months from the date of passing this resolution;
 - 2) the conclusion of the next annual general meeting of the company; and
 - 3) the revocation or variation of the mandate granted under this resolution by special resolution of the shareholders in general meeting.
- f) the directors, subject to the approval of the relevant authorities and in accordance with the Company Law of the PRC, be and is hereby authorised to increase the registered share capital of the Company to the respective amount upon the exercise of the powers pursuant to paragraph a) above, provided that the registered share capital shall not exceed Rmb973,080,000.
- g) Subject to the approval of the relevant PRC authorities, the Board be and is hereby authorised to make appropriate and necessary amendments to the articles of association (including Article 18 and Article 21) to reflect the alteration of the registered share capital of the Company pursuant to the exercise of this mandate.

17. approved the resolution to convene the 2001 Annual General Meeting with details as follows:

i) Notice is hereby given that the Company will hold its Annual General Meeting (AGM) at 10 am on Friday, 7th June, 2002 at the Company's premises at 45 Sha Mian North Street, Guangzhou Province, the People's Republic of China to deal with the following matters:

A) By way of ordinary resolutions:

- 1) to consider and approve the directors' report for the year 2001;
- 2) to consider and approve the report of the Supervisory Committee for the year 2001;
- 3) to consider and approve the audited accounts for the Company for the year 2001;
- 4) to consider and approve the auditors' reports for the year 2001;
- 5) to consider and approve the reappointment of the retiring auditors (Guangzhou

Yangcheng Certified Public Accountants Co. Ltd.) and the international auditors (PricewaterhouseCoopers) and to authorise the board of directors (the "Board") to determine their remunerations;

- 6) to consider and approve the resolution of profit distribution and dividend payment for the year 2001;
- 7) to consider and approve the projected net profit distribution policy for the Company in 2002;
- 8) to consider and approve the amount of emoluments to be paid to the directors of the Company and to authorise the Board to decide the amount for each directors;
- 9) to consider and approve the amount of emoluments to be paid to the supervisors of the Company and to authorise the Board to decide the amount for each supervisors; and
- 10) to consider and approve the resolution regarding the long-term incentive mechanism for the Company in 2002.

B) By way of special resolutions:

- 1) to consider and approve amendments to the Company's articles of association; (see attached announcement)
- 2) to consider and approve the rules and procedures for shareholders' meetings; and
- 3) to consider and approve the proposal to authorise the Board to allot and issue new shares.

ii) Attendees:

- 1) Domestic and foreign shareholders whose names appear on the Register of Members of the Company at the close of trading in the afternoon on Monday, 13 May 2002, are entitled to attend the meeting. The Register of Members of the Company will be closed from Wednesday, 8th May 2002 to Friday, 7th June 2002 (both days inclusive) during which period no transfer of 兠 shares will be effected;
- 2) Each shareholder can appoint his/her proxy to attend the meeting on his/her behalf (Proxy form attached); and
- 3) the directors, supervisors and senior management of the Company.

iii) Registration for the meeting:

- 1) Registration procedures: to attend the meeting, an individual shareholder should bring along his/her identity card, shareholder account card; a proxy

should bring along his/her identity card, the power of attorney, shareholder account card of his/her appointer; a representation of a legal person should bring along his/her identity card, the power of attorney issued by the unit, shareholder account card of the legal person and a copy of the business licence of the legal person. Overseas shareholders can make registration by mail, telephone or fax.

- 2) Registration time: 8:30 am - 11:30 am and 2:00 pm - 4:30 pm on Friday, 24 May 2002
- 3) Place of registration: Company Secretary Office
- iv) In order to qualify for the final dividend, the shareholders of the Company's H shares should prepare all of the necessary transfer documentation for the distribution of the final dividend and lodge with HKSCC Registrars Limited by 4:00 pm on 7 May 2002. A further notice will be made in relation to the share registration date, payment date and distribution arrangements for holders of 'A' shares.
- v) Others:
 - 1) Shareholders attending the meeting shall be responsible for their own travelling and accommodation expenses.
 - 2) Contact person: Mr. He Shuhua
Tel: 020-81218106
Fax: 020-81876408

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