

DISCUSSION AND ANALYSIS OF THE COMPANY'S OPERATIONS

(Unless otherwise stated, financial data contained herein is extracted from the accounts prepared by the Group in accordance with the PRC accounting rules and regulations)

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 in the PRC. *(Sources: Analysis of Industrial Enterprises in the Pharmaceutical Statistics Annual Report issued in April 2000 by the State Economic and Trading Committee)*

Operation status

1 Principal activities and geographical analysis of operations

Year 2000 is the third complete financial year since the Company listed its H shares on the Stock Exchange of Hong Kong. During the year, 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 2000, turnover from principal activities of the Group under both HK GAAP and PRC accounting rules and regulations was Rmb4,222,857,000, representing an increase of 22.24% over that of last year. Profit before taxation under PRC accounting rules and regulations amounted to Rmb219,936,000, representing an increase of 22.21% over that of 1999. Profit before taxation under HK GAAP amounted to Rmb204,572,000, representing an increase of 14.85% over that of 1999. The turnover and profit before taxation for the year 2000 reached their highest levels since the Company's establishment.

An analysis of the Group's turnover and profit before taxation for the year ended 31 December 2000 by principal activities is as follows:

	Turnover		Profit before taxation	
	(PRC Accounting Rules and Regulations) Rmb'000	(HK GAAP) Rmb'000	(PRC Accounting Rules and Regulations) Rmb'000	(HK GAAP) Rmb'000
Manufacturing	<u>1,295,155</u>	<u>1,295,155</u>	<u>158,420</u>	<u>154,350</u>
Trading:				
Wholesale	2,469,538	2,469,538	44,358	38,431
Retail	388,807	388,807	17,229	11,772
Import and export	<u>69,357</u>	<u>69,357</u>	<u>(71)</u>	<u>19</u>
	<u>2,927,702</u>	<u>2,927,702</u>	<u>61,516</u>	<u>50,222</u>
	<u><u>4,222,857</u></u>	<u><u>4,222,857</u></u>	<u><u>219,936</u></u>	<u><u>204,572</u></u>

No geographical analysis is presented as the Group's operations were substantially carried out in the PRC.

2 CPM manufacturing business

Turnover of the Group's manufacturing operations (the "manufacturing operations") in 2000 under both HK GAAP and PRC accounting rules and regulations was Rmb1,295,155,000, representing an increase of 7.95% over that of 1999. Profit before taxation of the manufacturing operations under PRC Accounting Rules and Regulations was Rmb158,420,000, representing an increase of 27.92% over that of 1999. Profit before taxation of the manufacturing operations under HK GAAP was Rmb154,350,000, representing an increase of 24.69% over that of 1999. Both the manufacturing operations' turnover and profit before taxation have reached record high levels.

In 2000, manufacturing operations focused on expanding the market share of its major products by strengthening its technology exhibitions 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. In 2000, the manufacturing operations had 26 major products for which annual sales of each of the 26 major products exceeded Rmb10 million. Of these products, 6 products achieved annual sales individually of Rmb50 million and 2 products achieved annual sales individually of Rmb100 million. The total turnover generated by the 26 major products contributed to an increase in turnover of the manufacturing operations of 16.02% in comparison to 1999. The increased emphasis on high value-added major products caused the turnover and gross profit margin of manufacturing operations increased by 55.51% and 7.62% respectively from that of 1999, which in turn increased the operating profit of the manufacturing operations.

In 2000, the manufacturing operations have completed a number of technology upgrade projects and GMP certification implementation. These include completion of the production capacity expansion project of a manufacturing plant with three production lines and the installation of a microwave drying line for Kwang Chow First Factory Chinese Medicine Factory (“Kwang Chow First Factory”). Guangzhou Qi Xing Pharmaceutical Factory (“GZ Qi Xing”) has also completed more than 20 technology upgrade projects which included a pills production line and a front-line production equipment. Guangzhou Chen Li Ji Chinese Medicine Factory (“GZ Chen Li Ji”) has been awarded the State GMP certificate in March 2000. At present, Guangzhou Yangcheng Pharmaceutical Co Ltd (“GZ Yangcheng”) and Guangzhou Pan Gao Shau Pharmaceutical Co Ltd (“GZ Pan Gao Shau”) are implementing GMP certification procedures actively. These technology development projects have enhanced production capacity and product quality.

In order to speed up the process of securing new products and technology, the Group has co-operated with the Beijing University of Chinese Medicine and Pharmacology, the Guangzhou University of Chinese Medicine and Pharmacology and the Sichuan Chinese Medicine Research Centre to conduct certain research and development projects of high-tech CPM. In 2000, the manufacturing operations have obtained approvals for production of three new medicine products and have commenced commercial operations of five new medicines. In November 2000, the Company entered into an agreement with the Guangzhou People’s Liberated Army Air-Force Hospital for a joint research project of an Anti-hepatitis B vaccine. At present, the Company has expedited the progress of construction of the Guangzhou Pharmaceutical Bio-Chemical Medicine Development Centre.





In 2000, the Group began to implement an ERP management system for manufacturing operations during 2000. The manufacturing operations SAP-R/3 system has successfully passed the certification process of the Guangzhou Finance Bureau in January 2001 and has been in operation in GZ Chen Li Ji. GZ Qi Xing and Guangzhou Xing Qun Pharmaceutical Co Ltd (“GZ Xing Qun”) have also begun implementation of the ERP system. The implementation of the ERP system has improved the overall efficiency and manufacturing quality of manufacturing operations.

3 Pharmaceutical trading business (including wholesaling, retailing, import and export)

Turnover of the Group’s trading operations (the “trading operation”) in 2000 under both HK GAAP and PRC accounting rules and regulations was Rmb2,927,702,000, representing an increase of 29.85% over that of 1999. Profit before taxation of the trading operations under PRC accounting rules and regulations was Rmb61,516,000, representing a respective increase of 9.60% over that of 1999. Profit before taxation of the trading operations under HK GAAP was Rmb50,222,000, representing a decrease of 7.55% over that of 1999.

During the report period, the OTC pharmaceutical market developed rapidly. The trading operation has introduced a classification system for medicine administration and prescription medicine. During the year, the Group’s trading operations have established a company specifically for the trading of OTC pharmaceutical products and has generated revenue over Rmb50 million. The trading operations have also adjusted its product mix by accommodating medicinal products with high market potential for treatment of special disease. During the year, the trading operations have obtained distribution rights for more than 2,000 new products, of which 4 new products have national and regional exclusive distribution rights. The new products contributed Rmb52,600,000 to the sales. This helped the sustained development of trading operations. In addition, the trading operations also continued



to concentrate on the expansion of its market within and outside Guangdong province. During the report period, turnover of the wholesaling business increased 37.04% over that of last year. This helped to sustain improvement on the operating profit of the trading operations.



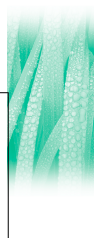
The State's medicine reform has driven the changes in and expansion of the pharmaceutical market. Accordingly, the trading operation has aggressively developed its retail chain stores. During the year, the Group has opened 33 new retail chain stores and increased the turnover from retailing operations by approximately Rmb15,000,000. As at 31 December 2000, the Group's retail network has 155 chain stores, included 93 Cai Zhi Lin chain stores, which mainly deal with CPM retailing, and 62 Jian Min chain stores, which deal with Western pharmaceutical products retailing.

In 2000, 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 of the products gross profit margin to 10.34%, representing a decrease of 2.58% as compared with 1999. In order to maintain profitability, the trading operation has aggressively expanded its sales network, on the one hand, and exercised stringent control over operational overheads on the other hand. This has resulted in the ratio of operating expenses to sales decreasing by 1.81% during the year. In addition, the trading operation improved the process of maintaining sufficient operating cash by ways of monitoring the inventory cycle and analysing sales mix in accordance with the marketing strategy. Furthermore, management has paid attention to its credit control and customer information scanning. During the year, the turnover ratio of the accounts receivable has increased by 28.20% as compared with last year. The decrease in operational overheads and increase in sales as well as the turnaround of operational cashflows contributed to the sustained growth of the trading operations' profit.

Results and details of the Company's principal major subsidiaries

Enterprise name	% of equity held	Total assets	Principal operating income (Rmb'000)	Principal operating profit (Rmb'000)
Kwang Chow First Factory	100%	258,590.50	352,852.40	212,192.30
GZ Chen Li Ji	100%	215,623.80	153,547.60	72,734.00
Guangzhou Zhong Sheng Pharmaceutical Factory ("GZ Zhong Sheng")	100%	63,634.00	53,024.60	21,582.40
GZ Qi Xing	100%	394,512.30	183,364.50	99,268.30
Guangzhou Pharmaceutical Corporation ("GPC")	100%	998,232.00	2,384,672.30	201,463.90
Guangzhou Chinese Medicine Corporation ("GCMC")	100%	282,166.40	495,619.60	83,419.20
Guangzhou Pharmaceutical Import & Export Corporation ("GPIE")	100%	37,235.20	79,511.60	8,002.40
GZ Xing Qun	84.10%	264,075.50	199,086.00	79,917.50
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd ("GZ Jing Xiu Tang")	83.90%	181,906.50	130,107.70	71,922.50
GZ Pan Gao Shou	81.53%	240,014.80	197,228.80	83,130.00
GZ Yangcheng	87.07%	103,653.70	130,322.30	63,040.00

Note: All the above major subsidiaries are established and carry out their operations in the PRC.



ISSUES ARISING FROM OPERATIONS AND SOLUTIONS

- 1 As stipulated by the notice Shui Fa [2000] 84 issued by the State Tax Bureau, advertising expenses are restricted to 2% of the sales value. Amounts in excess of 2% are treated as non-deductible expenses for the purpose of calculating income tax. Consequently, income tax of the manufacturing operations for the year 2000 increased by approximately Rmb11,000,000. In 2000, although the manufacturing operations had put more efforts into promotional and advertising activities, it exercised stringent control over advertising expenditure. In addition, the Group also centralised the advertising activities in the Company and only implemented advertising activities in the core market. This enabled the sales growth of the manufacturing operations being maintained.

- 2 In order to increase the managerial control over the Group's subsidiaries and improve the utilisation of internal resources, the Company placed the management team of one of the Group's subsidiaries, GZ Zhong Sheng, under the supervisory control of Kwang Chow First Factory commencing from May 2000. The purpose is to strengthen the internal control of GZ Zhong Sheng and management quality.

On 21 February 2001, the third meeting of the second term of the Board resolved the merger of Kwang Chow First Factory and GZ Zhong Sheng. At present, the merger is in process.

FINANCIALS

Extracted from the accounts prepared in accordance with the PRC accounting rules and regulations

	2000 <i>Rmb</i>	1999 <i>Rmb</i>	Change (%)
Total assets	3,063,914,823	3,001,286,675	2.08
Long term liabilities	84,573,230	98,261,885	(13.9)
Shareholders' equity	1,373,104,475	1,365,972,198	0.52
Profit from principal activities	1,001,732,586	847,610,057	18.18
Net profit	<u>146,234,183</u>	<u>128,663,317</u>	<u>13.66</u>

Extracted from the accounts prepared in accordance with HK GAAP

	2000	1999	Change (%)
	Rmb'000	Rmb'000	
Total assets	3,256,426	3,072,057	6
Long term liabilities	65,000	46,600	39.50
Shareholders' equity	1,574,490	1,478,225	6.51
Profit from principal activities	208,670	177,979	17.25
Net profit	135,250	128,688	5.1

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 the year 2000 prepared under the PRC accounting rules and regulations was Rmb146,234,000, which represents 93.56% of the profit forecast of Rmb156,304,000 as disclosed in the prospectus for public offering of A shares.

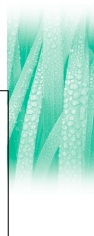
THE COMPANY'S INVESTMENTS

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 net proceeds of the issue after deducting expenses amounted to approximately HK\$317,421,000 (equivalent to Rmb340,233,000). As at 31 December 2000, there was approximately Rmb9,040,000 of the net proceeds which had not been used.

Details of use of the proceeds are as follows:

Item	Total investment amount	Capital injected up to year-end of 2000	Percentage of completion
	<i>Rmb'000</i>	<i>Rmb'000</i>	
New product development	50,380	50,380	100%
Innovation of existing production technology and purchase of new equipment	180,070	180,070	100%
Establishment of modern technology center	30,000	10,700	36%
Expansion of small and medium sized retail stores	39,660	39,660	100%
Common working capital and others	50,380	50,380	100%



Progress and profitability of investment items using the proceed from the issue of H shares

- 1 Capital amounting to Rmb50,380,000 was injected for new products development. 25 new products were developed, among which 17 products have obtained a license for production or trial production. 6 products are recognised as excellent. The quality, sales and profitability of another 6 products have been improved through product innovation.
- 2 Capital amounting to Rmb180,070,000 was injected for the technology innovation GMP Project. The GMP projects of Kwang Chow First Factory, GZ Chen Li Ji, GZ Qi Xing and GZ Jing Xiu Tang were verified by the Chinese Government. Product quality and company reputation have improved greatly.
- 3 The Company originally planned to invest Rmb30 million for the development of the Industrial Technology Modernisation Center. The Company has totally invested Rmb10,700,000 for this project. The outstanding amount will be invested in accordance with the Company's operating condition.
- 4 Capital amounting to Rmb39,660,000 was injected into trading companies in order to extend the sales network. 10 Jian Min chain stores and 6 Cai Zhi Lin chain stores have been newly established.
- 5 Capital amounting to Rmb50,380,000 was injected as working capital, which assuaged the shortage of working capital of some companies and directly reduced the financial expenses of the company. As a result the short-term loan balance has decreased from Rmb742,000,000 at the end of 1997 to Rmb478,000,000 at the end of the current year. Financial expenses have decreased from Rmb67,140,000 in 1997 to Rmb27,910,000 in 2000. This helped to sustain improvement on the Group's operating profit.

Major investments via use of funds generated from the Group's operations

With the approval of the Company's second extraordinary directors' meeting of the second term, the Company subscribed for 10,000,000 shares in Everbright Bank of China with a total subscription price of Rmb19,500,000. Because of the substantial over-subscription, the Company has been allotted 5,500,000 shares, which represent 0.093% of the total shares of Everbright Bank of China (5,891,000,000 shares) in issue. The total subscription price was Rmb10,725,000.

IMPACT OF THE CHANGES IN PRODUCTION ENVIRONMENT AND MACRO ECONOMY ON THE COMPANY



The domestic pharmaceutical market maintained sustained growth as a result of the following: continued development of the PRC economy; improvement in living standards; increased health care consciousness; the ageing of the population; and the increase in consumption of pharmaceutical products in rural regions. The State's reform of the pharmaceutical industry, which has included classification of pharmaceutical products and medical prescription, etc, has had a tremendous impact on the domestic demand for pharmaceutical products. Reliable domestic general medicines and new drugs with high medical effect are expected to capture a larger market share. Following the rapid development of the global natural medicine market, there is potential room for further development of Chinese medicine, considering its outstanding features of high medical benefit with less side effects. According to the Tenth Five-years Plan, the Government will nurture and develop the pharmaceutical industry while encouraging acquisition, merger and restructure activities within the pharmaceutical industry in order to increase competitiveness. The Company's CPM manufacturing and trading operations have their technological and operational advantages. Therefore, it will gain in a competitive market.

NEW BUSINESS PLAN

In 2001, the Company will concentrate on increasing its development of the investment projects which will use the proceeds from A shares to continue expanding the Group's competitive edge.

Increase development of sales network

The Group will continue to take a market-driven and product-oriented approach and place emphasis on expansion of the major products market. The Group will also strengthen its marketing and advertising campaigns for the purpose of increasing its market share and will develop a centralised market promotion team in order to increase the enterprises' efficiency and effectiveness. The trading operation plans to add another 37 additional chain stores to its retail network during 2001.

Accelerate the progress of developing new technology and research and development of new products

The Group will increase its investment in technology research and development, especially the construction of the Chinese Medicine Modernisation Engineering Centre, Bio-chemical Medicine Research Centre, and the Foundation of New Technology for Chinese Medicine. Moreover, the Group will further strengthen its co-operation with universities, research institutes and other organisations to jointly develop new products, enhance the technology level in the manufacturing of Chinese medicine, and to facilitate industrial modernisation. At present, the Group is working on 8 research projects which are in their final stage and 6 projects on basic pharmacology.

Increase the rate of technology renovation and GMP certification procedures

In 2001, the Company will place emphasis on the technology renovation projects undertaken by Kwang Chow First Factory and GZ Xing Qu, and the implementation of GMP certification procedures of GZ Pan Gao Shou and GZ Yangcheng.

Strengthen base management and improve the rate of ERP system implementation

As a result of implementing the ERP system and introducing advanced management skills to the Group, the entire operation systems will be restructured to enable a better utilisation of resources, management, and operational decision making. In 2001, the Group will increase the rate of implementation of computerized information systems within the trading operation. In order to strengthen management's capabilities on investment decision making, cash flow management and operational controls, the Group will continue to rely on the internal controls system (which places emphasis on financial controls), and will increase the implementation of the computer network. This will further improve management's risk and market awareness.

Design incentive schemes and provide training for the development of a professional management team

The Group is reviewing the possibility of launching an employees' share option scheme in order to integrate the objectives of the enterprises and its management. This would enable the Group's businesses to maintain a healthy sustainable development. In addition, the Company will design and implement a training programme for the Group's technical and managerial staff with the objective of improving the enterprises' level of quality staff.

Control financing activities to increase the rate of Group development

In addition to the operational and business matters mentioned above, the Group will use financing from the issue of shares to expand the enterprises. This will include co-operation with foreign and domestic strategic venture capitalists. In addition, the Group will explore further opportunities for merger and acquisition and potential investments with the objective of better utilising resources. The increase in issued share capital and asset management knowledge will provide opportunities to explore new profitable businesses and create a foundation for future development.

2001 is the first year of the 21st Century and is the year in which the Company successfully listed its A shares on the Shanghai Stock Exchange. The Group will continue its hard work to generate favourable returns for its shareholders.

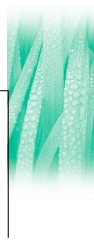
DAILY OPERATION OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors

All Directors of the Company have complied with the Company Law of the PRC, fulfilled their responsibilities as set forth in the Company's Articles of Association, diligently executed the resolution of the Company's general meetings of shareholders and worked hard for maintenance and maximisation of shareholders' wealth.

In 2000, the Board of Directors held 7 meetings, the major points and resolutions of those meetings are as follows:

- 1 the 12th meeting of the Board of Directors of the 1st term was held on 24 March 2000. The following resolutions were passed:
 - approved the 1999 Directors' Report;
 - approved the 1999 Report of the Supervisor;
 - approved the audited accounts for the year ended 31 December 1999;
 - approved the 1999 auditors reports
 - approved the appointment of the retiring auditors and international auditors, Guangzhou Yangcheng Certified Public Accountants Co Ltd and PricewaterhouseCoopers, respectively, and to authorise the Board of Directors of the Company to determine their remuneration.
 - approved the 1999 transfer of profits to reserves and dividend payment;
 - approved the aggregate amount of emoluments to be paid to Directors and Supervisors; and
 - proposed the granting of mandate to the Board to allot and issue new shares.



- 2 the 13th meeting of the Board of Directors of the 1st term was held on 4 August 2000. The following resolutions were passed:
- approved the election of directors and supervisors nominated by the ultimate holding company, Guangzhou Pharmaceutical Holdings Company Limited and the submission of their information to the shareholders' meeting;
 - approved the amendment of Clauses 88 and 111 of Articles of Associations;
 - approved to convene an extraordinary shareholders' meeting to be held on 26 September 2000;
 - approved the issue of A shares and the related progress report; and
 - approved the 2000 interim results working plan and the related progress report.
- 3 the 14th meeting of the Board of Directors of the 1st term was held on 18 August 2000. The following resolution was passed:
- approved 2000 interim announcement;
 - approved 2000 unaudited interim accounts; and
 - approved 2000 interim dividend payments.
- 4 the 15th meeting of the Board of Directors of the 1st term was held on 1 September 2000. The following resolution was passed:
- approved the policy of issue of A shares;
 - approved the feasibility study on the investment project for the use of proceed from issue of A shares;
 - approved the report of use of proceeds from last issue of shares and the report by Yangcheng Certified Public Accountants Company Limited in relation of the use of proceeds;
 - approved the plan of sharing of undistributed profit as at 30 June 2000 by existing shareholders and the A shareholders; and
 - approved to convene the 2nd extraordinary shareholders' meeting.

5 the 1st meeting of the Board of Directors of the 2nd term was held on 18 October 2000. The following resolutions were passed:

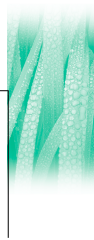
- approved the appointment of Cai Zhixiang and Li Yimin as the Company's chairman and deputy chairman;
- approved the appointment of Chen Xiangzhi as the Company's general manager;
- approved the appointment of Chu Yu Lin, David, Zhang Bohua and Wu Zhang as the members of the audit committee;
- approved the general manager's proposal to appoint of Lai Decheng and Xiao Cheng as the Company's deputy general managers;
- approved the general manager's proposal to appoint Jiang Shijie as financial controller;
- approved the Chairman's proposal to appoint He Shuhua as Secretary to the Board; and
- approved the fee of non-executive directors and supervisors.

6 the 1st extraordinary meeting of the Board of Directors of the 2nd term conducted by way of written resolution. The following resolution was passed:

- approved the agreement with the ultimate holding company in respect of leasing of warehouses and office building.

7 the 2nd extraordinary meeting of the Board of Directors of the 2nd term conducted by way of written resolution. The following resolution was passed:

- approved the plan to acquire shares in Everbright Bank of China.



The progress of execution by the Directors in respect of the resolutions of the General Meetings

1 1999 final profit distribution

Pursuant to the resolutions passed in the 1999 Annual General Meeting, the 1999 final dividend of Rmb0.03 per share has been paid to the shareholders in May 2000. The registration date for the final dividend was 2 May 2000. The ex-dividend date was 3 May 2000.

2 2000 interim profit distribution

Pursuant to the resolutions passed in the 2000 General Meeting, the 2000 interim dividend of Rmb0.02 per share has been paid to the shareholders in October 2000. The registration date for the final dividend was 3 October 2000. The ex-dividend date was 4 October 2000.

3 Issue of A shares

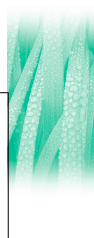
At the General Meeting held on 18 October 2000, the proposal to issue A shares has been resolved. Pursuant to the document [2000] 228 issued by the China Securities Regulatory Commission on 12 December 2000, the Company has been approved the issue to the public of A shares of not exceeding 100,000,000 shares. On 10 January 2001, the Company issued 78,000,000 A shares. Net amounts received from the issue of the 78,000,000 A shares totalled Rmb737,990,000.

PARTICULARS OF SENIOR MANAGEMENT AND STAFF

Directors, Supervisors and Senior Management's interests in equity and debt securities

1 As at 31 December 2000, the interests of the Directors, Supervisors and senior management in the shares, warrants and options of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

Name	Position	Sex	2000	1999
Cai Zhixiang	Chairman	Male	None	None
Li Yimin	Deputy Chairman	Male	None	None
Chen Xiangzhi	Director and General Manager	Male	None	None
Feng Zansheng	Director	Male	None	None
Chu You Lin, David	Non-executive Director	Male	None	None
Wu Zhang	Non-executive Director	Male	None	None
Liu Jingxiang	Non-executive Director	Male	None	None
Zhang Bohua	Non-executive Director	Male	None	None
Huang Boren	Non-executive Director	Male	None	None
Chen Canying	Supervisor	Male	None	None
Luo Jidong	Supervisor	Male	None	None
Tan Sima	Supervisor	Male	None	None
Xiao Cheng	Deputy General Manager	Male	None	None
Li Decheng	Deputy General Manager	Male	None	None
Jiang Zhijie	Financial Controller	Male	None	None
He Shuhua	Company Secretary	Male	None	None



Note:

(a) The term of the directors, supervisors and company secretary is three years commencing from 18 October 2000 to the date of the re-election of the 3rd term of the Board in 2003;

(b) The number of directors, supervisors and senior management of the Company classified according to their emoluments are as follows:

Below Rmb100,000	8
Rmb100,000- Rmb200,000	4
Rmb200,000- Rmb300,000	4
	16

(2) As at 31 December 1999, the interests of the directors, supervisors and senior management in the shares, warrants and options of the Company's associated corporations (within the meanings of the SDI Ordinance), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Directors:

Name	Type of interest	Company	Number of Shares
Cai Zhixiang	Family	GZ Xing Qun	1,900
	Family	GZ Pan Gao Shou	1,670
	Family	GZ Yangcheng	1,960
	Family	GZ Jing Xiu Tang	2,240
	Family	Guangzhou Guanghua Pharmaceutical Co., Ltd. ("GZ Guanghua")	1,670
	Family	Guangzhou Tianxin Pharmaceutical Co., Ltd. ("GZ Tianxin")	1,670
Li Yimin	Family	GZ Xing Qun	1,900
	Family	GZ Pan Gao Shou	1,670
	Family	GZ Yangcheng	1,960
	Family	GZ Jing Xiu Tang	2,240
	Family	GZ Tianxin	1,670
	Family	GZ Guanghua	1,670
	Trust*	Po Lian Development Company Limited ("Po Lian")	100,000

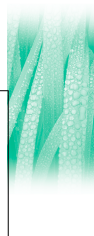
Name	Type of interest	Company	Number of Shares
Chen Xiangzhi	Family	GZ Pan Gao Shou	1,470
	Family	GZ Yangcheng	1,680
	Family	GZ Jing Xiu Tang	1,920
	Family	GZ Guanghua	1,470
Su Degui	Personal	GZ Jing Xiu Tang	1,000
	Personal	GZ Jing Xiu Tang	1,000
Supervisors:			
Chen Canying	Personal	GZ Yangcheng	22,150
Senior management:			
Xiao Cheng	Personal	GZ Jing Xiu Tang	30,000
	Family	GZ Tianxin	5,000
Li Decheng	Personal	GZ Jing Xiu Tang	1,920
	Personal	GZ Yangcheng	1,680
Jiang Shijie	Family	GZ Jing Xiu Tang	1,920
	Family	GZ Yangcheng	1,680
	Family	GZ Xing Qun	1,600
	Family	GZ Tianxin	1,470

* Mr. Li Yimin is holding the said shares on behalf of Po Lian as trustee only

Save as disclosed above, no rights have been granted to the directors, supervisors or Chief Executives of the Company or to their or children under the age of 18 years of age to subscribe for equity or debt securities of the Company.

Reasons for resignation of directors, supervisors and senior management during the report period

During the report period, Directors: Xiao Cheng, Li Xinghua, Li Guoju, Liao Jingguang, Su Degui and Zhu Baihua resigned upon expiration of terms of their appointment. Supervisors: Wen Xinmin, Mai Qijie resigned upon expiration of terms of their appointment. General Manager, Li Yimin resigned upon expiration of the term of his appointment. Their resignations were approved at the shareholders' meeting held on 18 October 2000.



Appointment of general manager and secretary to the Board

On approval at the 1st meeting of the 2nd term of the Board, Mr. Chen Xiangzhi was appointed as general manager. Mr. Li Decheng was appointed as deputy general manager. Mr. Jiang Shije was appointed as financial controller. Mr. He Shuhua was appointed as Company Secretary.

Directors and supervisors' service contracts

The summary of service contracts between the Company and the directors and supervisors is as follows:

- The term of the contract 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 is three years until the date of re-election of the 3rd term of the Board in 2003. At the end of the term, the directors, who resign, can offer themselves for re-election .

None of the above directors and supervisors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensations.

Profiles of directors, supervisors and senior management

Executive Directors:

Mr. Cai Zhixiang, aged 51, Chairman of the Board of Directors of the Company, joined GZPHL in 1981 and has over 20 years' experience in the pharmaceutical industry. Mr. Cai graduated from Guangzhou Administration College in 1991 with a Diploma in Business Administration. At present, he is the Chairman of GZPHL. Mr. Cai is also an executive member and Vice Chairman of the Executive Committee of Guangzhou Red- Cross Association, and Honorary Chairman of Guangdong Medical Association of Industry and Commerce.

Mr. Li Yimin, aged 50, Vice Chairman of the Board of Directors and Chief Pharmacist of the company, joined GZPHL in 1970 and has 31 years' experience in the Chinese pharmaceutical industry. Mr. Li further studied at the Faculty of Biology of Zhong Shan University in 1976. He received further professional training in business and marketing in the United States in 1993. At present, he is the Deputy Chairman and General Manger of GZPHL. Mr. Li is also an executive member of the Executive Committee of Chinese Pharmaceutical Enterprises Administrative Association of China and Chinese Medicine Society of China, and holds the position of Vice Chairman of the Chinese Medicine Society of Guangdong Province, and the Guangzhou Chain Store Operations Association respectively.

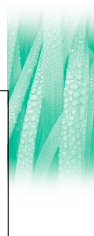
Mr. Feng Zansheng, aged 50, Deputy General Manager of the Company, is in charge of the Group's Marketing Department and is a Chief Pharmacist. Mr. Feng joined GZPHL in 1970. He graduated from Guangzhou Medical College in 1977 with a University Diploma in Medical Treatment. Mr. Feng is currently the Manager and Head of the Wholesale Department of Guangzhou MPC, and Vice Chairman of the Chinese Medical Commerce Association. He is also executive member of Guangdong Medical Society and Vice Head Commissioner of Trading Speciality.

Mr. Chen Xiangzhi, aged 38, General Manager of the company, joined GZPHL in 1985. Mr. Chen graduated from South China Teachers University. He undertook further study at the Guangdong Society Science Institution and graduated with a Masters Degree in Political Economics. At present, he is the Chairman of the Board of Directors, General Manager of Guangzhou Yangcheng Pharmaceutical Co. Ltd., Commissioner of the Association of Marketing, and executive member of the Chinese Medical Association of Guangdong Province.

Independent non-executive directors:

Mr. Chu Youlin, David, aged 56, is a member of the Legislative Council of Hong Kong's Special Administrative Region and the Managing Director of Wah Tak Fung Holdings Limited. Mr. Chu received a Masters Degree in Management from Northwest University and a Masters Degree in Business Administration from Harvard University in the United States. Mr. Chu joined the Company in 1997.

Mr. Zhang Bohua, aged 68, is Honorary Chairman of Yue Xiu Enterprises (Holdings) Limited, Yue Xiu Investment Company Limited, and Denway Investment Limited. Mr. Zhang joined the Company in 1997.



Mr. Liu Jinxiang, aged 60, is currently the Chairman of the Board of Directors and General Manager of Yue Xiu Enterprises (Holdings) Limited, Yue Xiu Investment Company Limited, and is also Chairman of the Board of Directors of Yue Xiu Transportation Company Limited. Mr. Liu graduated from Xi'an Construction Technology University in 1964 and has over 30 years' experience in Industry Technology and Management of enterprise and economic affairs. He was once Vice-Mayor of Guangzhou and Head of Guangzhou's Economic Committee. Mr. Liu joined the Company in 2000.

Mr. Wu Zhang, aged 43, is currently the Chairman of the Board of Directors of Guangzhou Stock Company Limited. Mr. Wu received a Masters Degree in Management from Murdoch University in Australia and has a strong theoretical knowledge and rich experience in economics, finance and stock management. From 1989 to 1999, he was General manager of Guangzhou Yue Yin Finance Development Company, and Chairman of the Board of Directors and Vice General Manager of Hong Kong Yue Xiu finance Company Limited and Hong Kong Yue Xiu Stock Company Limited. Mr. Wu joined the Company in 2000.

Mr. Huang Buren, aged 64, received the job title of China Tax Specialist and Certified Tax specialist in 1996. He was engaged in fiscal and tax affairs for over 40 years with a rich experience in management of fiscal and tax affairs. Mr. Huang has previously been the Chief of a branch of the Guangzhou Finance Bureau, Vice Chief of the Guangzhou Finance and Tax Bureau, and Chief of the Guangzhou Price Bureau. Mr. Huang joined the Company in 2000.

Supervisors:

Mr. Chen Canying, aged 51, is the Chairman of the Supervisory Committee of the Company. Mr. Chen graduated from Guangzhou Party Cadres School in 1985. Mr. Chen is also the Chairman of the Guangzhou Medical Group's Supervisory Committee, Executive Director of the Guangzhou Entrepreneurs Association, a member of the Editorial Committee of "Chinese Medicine Affairs Paper", and an Executive Director of the Chinese Medicine Economic Research Association. Mr. Chen joined the Company in 1997.

Mr. Tan Sima, aged 37, is currently the Vice-Chairman and General Manager of Guangzhou Stock Company Limited. He has a Master of Economics from Zhong Shan University and has rich experience and strong theoretical knowledge of stock and management of Stock. Mr. Tan was once the Vice General Manager of Hong Kong Yue Xiu Finance Company, and Executive director and General Manager of Guangzhou Yue Yin Finance Development Company. He is also Vice General Manager of Guangzhou Stock Manager. Mr. Tan joined the Company in 2000.

Mr. Luo Jidong, aged 47, is a Senior Economist and is currently the Chief of the Commerce Bank, Guangzhou branch. He obtained a Masters of Economics from Southwest Finance University and has a rich experience in financial management. Mr. Luo is also Vice Chief of a branch of the People's Bank of China. Mr. Luo joined the Company in 2000. Mr. Luo joined the Company in 2000.

Senior management:

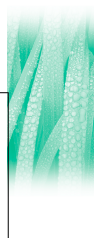
Mr. Xiao Cheng, aged 59, is a Senior Economist, Vice General Manager of the Company and is engaged in planning of production and technical development. He joined the GZPHL in 1958 and has over 30 years' experience in business management. He graduated from Guangzhou part-time University in 1989 with a University Diploma in Administrative Management.

Mr. Li Decheng, aged 40, joined GZPHL in 1978. He is the Deputy General Manager of the Company. He graduated from Guangzhou Teaching College in 1988 with a University Diploma in Political Science and Economic Management and has a Masters degree from Northeast Finance University. He is presently the Deputy General Manager of Guangzhou Pangaoshou Pharmaceutical Co. Ltd. and Vice Chairman of the Association of Chinese Food.

Mr. Jiang Shijie, aged 65, joined GZPHL in 1978, and is a Senior Accountant and the Financial Controller of the Company. He Graduated from Guangzhou Finance School in 1954 with a Certificate in Accounting. Mr. Jiang is also an executive member of Guangzhou Accounting Association and China Pharmaceutical Accountants Association.

Company Secretary:

Mr. He Shuhua, aged 44, joined GZPHL in 1982 and is the Statistician and Company Secretary. He graduated from Zhong Shan University in 1982 with a Bachelors Degree in Biology. In 1995, he obtained a Masters Degree in Statistics from the same university. He is also an executive member of Uniform Design Society of Chinese Mathematics Society, and Executive member of the Editorial Committee of the "Chinese Medicine Market and Information Magazine"

**Employees of the Group:**

As at 31 December 2000, the number of employees on the payroll register of the Company was 8,203, including:

	No. of employees
Production related personnel	2,651
Technology related personnel	1,233
Finance related personnel	284
Administration related personnel	568
Sales related personnel	2,247
Others	1,220

Among the employees in the Company, there are 427 who hold diplomas or college degrees and 3,881 retired.

PROPOSED SCHEME OF PROFIT TRANSFER AND DISTRIBUTION AND PROPOSAL TO INCREASE SHARE CAPITAL FROM CAPITAL RESERVE**Proposed scheme of profit distribution**

In accordance with the PRC accounting rules and regulations, net profit of the Group for 2000 is Rmb146,234,183. The Company and its subsidiaries respectively transferred 10% of its net profits to the statutory public welfare fund and the statutory surplus reserve fund, totalling Rmb68,885,709. The net profit available for distribution after the transfer to reserves and the opening accumulated losses of Rmb50,195,638 is Rmb27,152,836. The Board has declared the payment of interim dividend of Rmb0.02 per share. The interim dividend amounted to Rmb14,658,000. The Board recommended a final dividend of Rmb0.03 per share (including withholding tax for A Shares) for the year ended 31 December 2000. Together with the distributed interim dividend of Rmb0.02 per share, the total dividend for the year is Rmb0.05 per share.

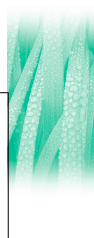
A resolution approving the sharing of distributable profit as at 30 June 2000 amongst the existing shareholders and the Shareholders of A Shares was passed at the second 2000 EGM on 18 October 2000. In accordance with this resolution, and based on the total number of shares of 810,900,000 in issue (included the A shares), the proposed final dividend amounted to Rmb24,327,000. The profit available for distribution after the interim dividend is Rmb11,475,000. An insufficient amount for distribution would be covered by the discretionary surplus fund. Together with the interim dividend paid, the total dividends for the year 2000 amounted to Rmb38,985,000. The proposed final dividend, if passed at the annual general meeting on 15 June 2001, will be paid on or before 29 June 2001 to H share shareholders who appear on the shareholders register before 4:00 pm on 23 May 2001 (Wednesday). The registration day of the A shares' shareholders, date of payment of the dividend, and the method of payment will be announced separately.

Proposed 2001 scheme of profit distribution

- (a) Proposed to have two distributions during 2001;
- (b) Distributions will be mainly in the form of cash;
- (c) The proposed distribution will be approximately 30% of the net profit of 2001;
- (d) The undistributed profit at the year-end of 2000 will not be used for distribution; and
- (e) The above scheme is subject to change when the Board considers that it is no longer appropriate given the circumstances at that time.

Proposed scheme of increase in share capital from capital reserve

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



OTHER MATTERS

Details of the new issue of A shares and proposed usage of the proceeds

The proposed usage of proceeds from the issue of A shares in January 2001 is as follows:

- | | |
|--|-------------------|
| (a) Improvement of production technology for major products and commencement of commercial production of new products: | Rmb329.70 million |
| (b) Development of production centre based on new technology to industrialise the production of Chinese medicine: | Rmb59.80 million |
| (c) Expansion of sales network, establishment of a centralised logistic centre and further installation of ERP system: | Rmb188.80 million |

The amount is made up as follows:

- | | |
|--|-------------------|
| Expansion of sales network | Rmb148.80 million |
| Establishment of a centralised logistic center | Rmb20.0 million |
| Installation of ERP system | Rmb20.0 million |
| (d) Biological Medicine Research Center: | Rmb80.00 million. |

The center will be engaged in the research and development of genetic vaccine, biological medicine and technology.

- | | |
|----------------------|-----------------|
| (e) Working capital: | Rmb79.69million |
|----------------------|-----------------|

Accounts

The results of the Group for the year ended 31 December 2000 are set out in the consolidated profit and loss accounts prepared in accordance with HK GAAP and PRC accounting rules and regulations on page 55 and page 92 respectively.

The state of affairs of the Group and the Company as at 31 December 2000 is set out in the balance sheets prepared in accordance with HK GAAP and PRC accounting rules and regulations on page 56 and page 57, and page 91 and page 98, respectively.

The cash flows of the Group for the year ended 31 December 2000 is set out in the consolidated cash flow statements prepared in accordance with HK GAAP and PRC accounting rules and regulations on page 58 and pages 95 to 96, respectively. The cash flows of the Company for the year ended 31 December 2000 is set out in the cash flow statement prepared in accordance with PRC accounting rules and regulations on pages 101 to 102.

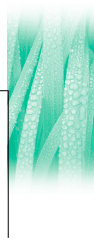
Financial summary

A summary of the results and of the asset and liabilities of the Group for the last five financial years prepared in accordance with HK GAAP is set out on page 8.

A summary of the results and of the asset and liabilities of the Group for the last three financial years prepared in accordance with the PRC accounting rules and regulations is set out on page 6.

Reserves

Movements in the reserves of the Group and the Company during the year are set out on pages 76 to 78 and pages 131 to 132 in the annual report.



Distributable reserves

In accordance with the Company's Articles and Associations, the profit available for distribution to shareholders is the lower of the amount determined in accordance with HK GAAP and the amount determined in accordance with the PRC accounting rules and regulations. After the appropriation of the proposed final dividend, the Company had no distributable reserve determined in accordance with HK GAAP as at 31 December 2000. The distributable reserve of the Company as at 31st December 1999 amounted to Rmb21,320,000, which is calculated under HK GAAP.

Fixed assets

Details of movements in fixed assets during the year are set out on pages 69 to 70 and page 120 of the annual report.

Directors' and Supervisors' interest in contracts

No contracts of significance in relation of the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

Connected transactions

As GZPHL holds approximately 70% of the issued share capital of the Company, certain transactions which were entered into between the Group and GZPHL and its fellow subsidiaries constitute related party transactions under the Hong Kong Listing Rules of HKSE. Details of these transactions, which are required to be disclosed in accordance with the Listing Rules are set out on page 84 and page 85 of the annual report.

Other transactions with jointly controlled entities and associated companies as disclosed in the notes to the accounts do not constitute related party transactions under the Listing Rules.

The Directors believe that the above-mentioned related party transactions fully comply with the waivers granted by the Stock Exchange to the Company.

The non-executive Directors have reviewed the related party transactions and issued a letter confirming that those related party transactions are in compliance with the waiver granted by the Stock Exchange to the Company.

Management contracts

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

Major customers and suppliers

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

Compliance with the code of best practice

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules.

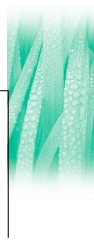
Audit Committee

Pursuant to the Listing Rules, an audit committee, comprising three independent non-executive Directors, namely Zhang Bohua and Chu You Lin, David, and Mr. Wu Zhang was established on 16 August 1999.

By reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Directors on the same date. The principal activities of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls.

Enterprise income tax and local tax refund privilege

Pursuant to an approval document issued by the Guangzhou Municipal Government certain subsidiaries of the Group are entitled to a preferential enterprise income tax refund treatment during the period from 1 September 1997 (date of establishment) to 31 December 2000 which will result in an effective income tax rate of 15%.



Pursuant to a document [2000] 76 issued by the Guangdong Finance Bureau on 9 November 2000, enterprise income tax of listed companies in Guangdong province up to year 2001 may be initially based on the unified tax rate of 33% and the portion over the preferential tax rate of 15% shall be refunded by the relevant local finance authority. The Company has submitted an application to the Guangzhou Municipal Government for entitlement of this preferential enterprise income tax refund treatment in 2001. However, the Company is for the time being unable to confirm whether Guangzhou Municipal Government will approve such application.

Interest capitalised

Details of interest capitalised are set out page 66 and page 71 of the annual report.

Retirement scheme

Details of the retirement scheme and amounts of contributions charged to the profit and loss account for the year are set out on page 63 and page 65 of the annual report.

Staff quarters

Pursuant to the Accommodation Service Agreement entered into between the Company and GZPHL on 1 September 1997, in which GZPHL agreed to sell the staff quarters to the employees of the Group at 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 for building or acquiring such staff quarters. For the year ended 31 December 2000, the total staff quarters reform costs paid or payable to GZPHL, amounted to approximately Rmb62,030,000 (1999: Rmb57,139,000).

In addition, the Group has constructed or acquired certain staff quarters. As at 31 December 2000, the difference between the construction cost or acquisition cost and revenue from disposal of the quarters was totalling Rmb42,437,000 (1999: Rmb20,653,000).

The above mentioned staff quarters reform costs accumulated to Rmb104,467,000 at 31 December 2000 (1999: Rmb77,792,000).

According to the regulations 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 therefrom should be dealt with in retained earnings as at 1 January 2000. Subject to the approval by the Board of Directors, 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 rules and regulations.

For the accounts prepared in accordance with HK GAAP, the staff quarters reform costs have been deferred and amortised 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 amortisation as at 31 December 2000 was approximately Rmb14,558,000. As at 31 December 2000, the net carrying value of the deferred staff quarters reform costs was Rmb89,909,000. In the opinion of the board of directors 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 at 31 December 2000 would have been reduced by approximately Rmb89,909,000.

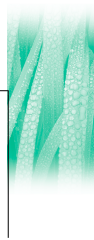
With respect to the document (Suifu [2000] 18) issued by the Guangzhou Municipal Government on 18 May 2000 concerning the one-time cash accommodation allowance to (i) those employees to whom the Group has not allocated staff quarters and (ii) those aged employees whose allocated staff quarters do not meet the required standard, the Directors consider that the said document is not legally binding on the Group. In 2001, the Group will formulate their own policy of cash accommodation allowance to employees based on the Group's situation.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Bank loans, overdraft and other loans

As at 31 December 2000, the details of the bank loans, overdraft and other loans are set out one page 75 and page 80 and page 126 and page 129. There are no material adverse changes in respect of the amounts of bank loans, short term loans and total liabilities as at 31 December 2000 compared to that of last year.



Exchange rate fluctuation risk

Up to 31 December 2000, the Group has no material exposure to fluctuation in exchange rates.

Gearing ratio

Up to 31 December 2000, there are no material adverse changes in the gearing ratio of the Group.

Auditors

Guangzhou Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers were appointed as domestic and international auditors of the Company for the year 2000, as approved at the 1999 AGM.

A resolution for the re-appointment of Guangzhou Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers as domestic and international auditors respectively of the Company for the year 2001, is to be proposed at the forthcoming AGM.

On behalf of the Board

Cai Zhixiang

Chairman

20 April 2001