

# FINANCIAL REPORTS

## FINANCIAL REPORT PREPARED IN ACCORDANCE WITH PRC ACCOUNTING RULES AND REGULATIONS (UNAUDITED)

### Balance sheet

For the six months ended 30th June, 2001

Unit: Renminbi

Assets	Group		Company	
	At the beginning of the period	At the end of the period	At the beginning of the period	At the end of the period
<b>Current assets</b>				
Cash and cash equivalents	488,332,578.45	1,143,007,553.18	128,224,828.98	502,370,640.64
Short term investments	0.00	0.00	0.00	0.00
Notes receivable	2,596.27	0.00	0.00	0.00
Dividends receivable	3,013,835.00	3,013,835.00	3,399,486.99	7,241,508.07
Interests receivable	0.00	0.00	0.00	0.00
Accounts receivable	465,904,603.69	624,465,487.93	0.00	0.00
Other receivables	174,653,322.34	197,110,428.87	240,604,539.88	431,898,120.60
Prepayments	8,425,742.30	18,548,969.97	0.00	0.00
Subsidies receivable	3,142,220.86	3,145,771.66	0.00	0.00
Inventories	790,462,500.78	713,433,819.68	0.00	0.00
Deferred expenses	59,271,091.50	54,481,893.78	0.00	0.00
Current portion of investments in long term debentures	0.00	0.00	0.00	0.00
Other current assets	116,659.25	661,978.11	0.00	0.00
Total current assets	1,993,325,150.44	2,757,869,738.18	372,228,855.85	941,510,269.31
Long term investments				
Long term equity investments	79,139,028.17	89,547,220.77	1,033,610,629.44	1,236,642,207.06
Long term debentures investments	291,896.00	231,896.00	0.00	0.00
Total long term investments including: Goodwill	79,430,924.17	89,779,116.77	1,033,610,629.44	1,236,642,207.06
Fixed assets				
Cost	951,890,311.76	965,957,866.97	26,325,190.76	26,719,425.76
Less: Accumulated depreciation	330,510,825.50	360,581,586.53	3,064,431.00	3,901,011.24
Net book value	621,379,486.26	605,376,280.44	23,260,759.76	22,818,414.52
Construction supplies	0.00	0.00	0.00	0.00
Construction in progress	188,875,666.86	214,995,547.11	0.00	0.00
Fixed assets pending write-off	-1,500.00	62,644.00	0.00	0.00
Total fixed assets	810,253,653.12	820,434,471.55	23,260,759.76	22,818,414.52
<b>Intangible and other assets</b>				
Intangible assets	102,086,313.80	103,145,787.89	0.00	0.00
Long term deferred expenses	26,606,042.65	26,032,181.78	3,035,773.13	2,707,308.05
Other long term assets	0.00	0.00	0.00	0.00
Total intangible and other assets	128,692,356.45	129,177,969.67	3,035,773.13	2,707,308.05
Deferred tax				
Deferred tax assets	0.00	0.00	0.00	0.00
Total assets	3,011,702,084.18	3,797,261,296.17	1,432,136,018.18	2,203,678,198.94
Liabilities and Equity				
Current liabilities				

Short term loans	478,000,000.00	396,620,000.00	30,000,000.00	0.00
Notes payable	0.00	0.00	0.00	0.00
Accounts payable	516,726,227.60	520,050,048.71	0.00	0.00
Advances from customers	29,738,338.70	15,463,589.12	0.00	0.00
Wages payable	111,024,667.40	86,285,349.85	2,629,148.66	2,971,090.85
Welfare payable	33,778,720.32	37,403,313.12	1,508,741.73	1,782,727.77
Dividends payable	29,430,097.16	23,027,985.05	24,537,008.29	21,983,104.40
Tax payable	35,519,653.23	51,192,759.95	67,207.95	49,337.74
Other liabilities	3,237,358.22	3,991,386.05	7,577.98	387.48
Other payables	229,273,428.07	299,003,560.53	41,582,503.53	12,279,978.16
Accrued expenses	4,639,122.33	26,881,468.71	3,090,965.00	2,026,094.41
Estimated liabilities	0.00	0.00	0.00	0.00
Current portion of long term loans	34,000,000.00	24,000,000.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00
Total current liabilities	1,505,367,613.03	1,483,919,461.09	103,423,153.14	41,092,720.81
Long term liabilities				
Long term loans	65,000,000.00	40,000,000.00	0.00	0.00
Debentures payable	0.00	0.00	0.00	0.00
Long term payable	14,119,798.94	12,643,610.06	0.00	0.00
Special accounts payable	0.00	0.00	0.00	0.00
Other long term liabilities	5,453,431.26	5,060,444.00	0.00	0.00
Total long term liabilities	84,573,230.20	57,704,054.06	0.00	0.00
Deferred tax				
Deferred tax liabilities	0.00	0.00	0.00	0.00
Total liabilities	1,589,940,843.23	1,541,623,515.14	103,423,153.14	41,092,720.81
Minority interests	94,983,436.46	99,724,002.71	0.00	0.00
Shareholders' equity				
Share Capital	732,900,000.00	810,900,000.00	732,900,000.00	810,900,000.00
Less: Purchase of own shares	0.00	0.00	0.00	0.00
Net share capital	732,900,000.00	810,900,000.00	732,900,000.00	810,900,000.00
Capital reserve	445,108,742.81	1,105,480,936.29	445,108,742.81	1,105,480,936.29
Surplus reserve	181,105,661.19	181,105,661.19	71,471,379.81	71,471,379.81
including: public welfare fund	67,562,100.85	67,562,100.85	37,105,618.37	37,105,618.37
Retained earnings	-32,336,599.51	58,427,180.83	79,232,742.42	174,733,162.03
Translation differences	0.00	0.00	0.00	0.00
Other equity	0.00	0.00	0.00	0.00
Total shareholders' equity	1,326,777,804.49	2,155,913,778.31	1,328,712,865.04	2,162,585,478.13
Total liabilities and equity	3,011,702,084.18	3,797,261,296.17	1,432,136,018.18	2,203,678,198.94

## Profit and loss account

For the six months ended 30th June, 2001

*Unit: Renminbi*

Items	Group			Company		
	Same period of last year	This period	At the end of last year	Same period of last year	This period	At the end of last year
1. Sales	2,156,087,198.60	2,644,970,813.82	4,222,857,015.97	0.00	0.00	0.00
Less: Cost of sales	1,622,777,837.51	2,034,004,853.14	3,201,331,862.39	0.00	0.00	0.00
Sales taxes and levies	10,713,708.77	11,925,750.88	19,792,568.06	0.00	0.00	0.00
2. Profit from principal operations	522,595,652.32	599,040,209.80	1,001,732,585.52	0.00	0.00	0.00
Add: Other revenue	16,031,828.05	15,768,155.71	36,439,662.67	278,348.69	144,759.20	2,433,359.33
Less: Selling expenses	180,077,654.32	198,870,670.83	348,172,061.02	0.00	0.00	0.00
Administration expenses	227,972,866.79	255,801,958.85	466,504,180.72	4,905,690.33	9,359,129.35	13,594,661.68

	Financial expenses	16,793,097.22	4,525,182.18	27,913,527.64	-3,028,219.66	-11,467,816.56	-5,357,377.21
3.	Profit from operations	113,783,862.04	155,610,553.65	195,582,478.81	-1,599,121.98	2,253,446.41	-5,803,925.14
	Add: Investment income	3,673,055.16	-1,764,079.66	4,647,887.81	82,953,293.04	93,247,754.10	147,368,727.11
	Subsidy income	0.00	331,906.00	9,288,486.45	0.00	0.00	0.00
	Non-operating income	4,008,835.09	3,164,701.46	18,407,208.86	10,260.00	83.13	10,344.91
	Less: Non-operating expenses	8,155,086.60	5,490,460.63	12,787,569.70	8,629.01	864.03	138,279.72
4.	Profit before tax	113,310,665.69	151,852,620.82	215,138,492.23	81,355,802.05	95,500,419.61	141,436,867.16
	Less: Taxation	26,355,345.77	54,116,860.58	62,725,426.49	0.00	0.00	0.00
	Minority interests	5,599,517.87	6,971,979.90	10,976,198.58	0.00	0.00	0.00
5.	Net profit	81,355,802.05	90,763,780.34	141,436,867.16	81,355,802.05	95,500,419.61	141,436,867.16
	Add: Retained earnings brought forward	-80,260,940.54	-32,336,599.51	-80,260,940.54	5,068,248.70	79,232,742.42	5,068,248.70
	Transfer from others	0.00	0.00	0.00	0.00	0.00	0.00
6.	Distributable profit	1,094,861.51	58,427,180.83	61,175,926.62	86,424,050.75	174,733,162.03	146,505,115.86
	Less: Transfer to statutory surplus reserves	12,551,086.46	0.00	33,689,813.01	8,135,580.21	0.00	14,143,686.72
	Transfer to public welfare fund	12,551,086.46	0.00	33,689,713.12	8,135,580.21	0.00	14,143,686.72
	Appropriation to staff bonus and welfare fund	0.00	0.00	0.00	0.00	0.00	0.00
	Transfer to reserve fund	0.00	0.00	0.00	0.00	0.00	0.00
	Transfer to enterprise development fund	0.00	0.00	0.00	0.00	0.00	0.00
	Capitalisation of Profit	0.00	0.00	0.00	0.00	0.00	0.00
7.	Distributable profit	-24,007,311.41	58,427,180.83	-6,203,599.51	70,152,890.33	174,733,162.03	118,217,742.42
	Less: Dividend for preference shares	0.00	0.00	0.00	0.00	0.00	0.00
	Transfer to discretionary surplus reserves	0.00	0.00	0.00	0.00	0.00	0.00
	Dividend for ordinary shares	14,658,000.00	0.00	26,133,000.00	14,658,000.00	0.00	38,985,000.00
	Capitalisation of dividend for ordinary shares	0.00	0.00	0.00	0.00	0.00	0.00
	Offset accumulated losses	0.00	0.00	0.00	0.00	0.00	0.00
8.	Retained earnings	-38,665,311.41	58,427,180.83	-32,336,599.51	55,494,890.33	174,733,162.03	79,232,742.42

## Supplementary Information to Profit and Loss Account

Profit for the reporting period	Return on net assets (%)		Earnings per share (Rmb)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Income from principal operations	27.79	30.14	0.7387	0.7508
Income from operations	7.22	7.83	0.1919	0.1950
Net profit	4.21	4.57	0.1119	0.1138
Net profit after deduction of exceptional items	4.3	4.67	0.1144	0.1163

## Cash flow statement

For the six months ended 30th June, 2001

Unit: Renminbi

Items	Group	Company
1. Cash flow from operating activities		
Cash received from sales of goods or rendering of services	2,941,613,158.25	0.00

	Refund of tax	1,033,320.54	0.00
	Other cash received relating to operating activities	30,357,013.02	10,087,113.66
	Sub-total of cash inflows	2,973,003,491.81	10,087,113.66
	Cash paid for goods and services	2,253,586,757.40	0.00
	Cash paid to or on behalf of employees	182,303,574.29	2,450,260.86
	Taxes paid	187,216,229.35	14,944.29
	Other cash outflows relating to operating activities	299,391,670.07	26,452,461.23
	Sub-total of cash outflows	2,922,498,231.11	28,917,666.38
	Net cash inflows/(outflows) from operating activities	50,505,260.70	-18,830,552.72
2.	Cash flow from investing activities		
	Cash received from sale of investments	4,733,106.23	0.00
	Cash received from distribution of dividend or profits	0.00	60,193,496.45
	Proceeds from sale of fixed assets, intangible assets and other long term assets	168,249.95	0.00
	Other cash inflows relating to investing activities	0.00	8,775,000.00
	Sub-total of cash inflows	4,901,356.18	68,968,496.45
	Cash paid to acquire fixed assets, intangible assets and other long term assets	16,465,620.25	394,235.00
	Cash paid to acquire investments	500,000.00	374,090,000.00
	Other cash outflows relating to investing activities	0.00	0.00
	Sub-total of cash outflows	16,965,620.25	374,484,235.00
	Net cash outflows from investing activities	-12,064,264.07	-305,515,738.55
3.	Cash flows from financing activities		
	Proceeds from issuing shares	738,072,193.48	0.00
	Proceeds from borrowings	1,386,800.00	0.00
	Other proceeds related to financing activities	14,292,038.63	738,072,193.48
	Sub-total of cash inflows	753,751,032.11	738,072,193.48
	Cash repayments of amounts borrowed	102,633,632.75	30,000,000.00
	Cash payments for distribution of dividend or profits and for interest expenses	21,983,104.40	9,654,718.01
	Other cash payments relating to financing activities	12,974,944.32	0.00
	Sub-total of cash outflows	137,591,681.47	39,654,718.01
	Net cash inflows from financing activities	616,159,350.64	698,417,475.47
4.	Effect of changes in foreign exchange rate on cash	74,627.46	74,627.46
5.	Net increase in cash and cash equivalents	654,674,974.73	374,145,811.66

<b>Items</b>	<b>Group</b>	<b>Company</b>
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Supplementary information:

1.	Reconciliation of net profit to cash inflows from operating activities		
	Net profit	90,763,780.34	95,500,419.61
	Add: Minority interests	0.00	0.00
	Provision of impairment cost for assets	0.00	0.00
	Depreciation of fixed assets	31,693,562.29	0.00
	Amortisation of intangible assets	1,801,484.78	836,580.24
	Amortisation of long term deferred expenses	7,888,393.62	0.00
	Decrease in deferred expenses (less: increase)	4,789,197.72	0.00
	Increase in accrued expenses (less: decrease)	22,242,364.38	0.00
	Losses on disposal of fixed assets, intangible assets and other long term assets (less: gains)	30,625.51	0.00
	Losses on scrapping of fixed assets	226,204.27	0.00
	Financial expenses	4,450,554.72	-74,627.46
	Losses arising from investments (less: gains)	1,764,079.66	-93,247,754.10
	Deferred tax credit (less: debit)	0.00	0.00
	Decrease in inventories (less: increase)	-7,438,787.17	0.00
	Decrease in operating receivables (less: increase)	-168,020,388.05	-200,068,580.72
	Increase in operating payables (less: decrease)	60,314,188.63	-29,482,525.37
	Others	0.00	207,705,935.08
	Net cash inflows from operating activities	50,505,260.70	-18,830,552.72

2. Investing and financing activities that do not involve in cash receipts and payments		
Repayment of debts by the transfer of investments	0.00	0.00
Current portion of convertible company bond	0.00	0.00
Fixed assets in the form of financial lease	0.00	0.00
3. Net increase in cash and cash equivalents		
Cash at the end of the period	1,143,007,553.18	502,370,640.64
Less: cash at the beginning of the period	488,332,578.45	128,224,828.98
Cash equivalents at the end of the period	0.00	0.00
Less: cash equivalents at the beginning of the period	0.00	0.00
Net increase in cash and cash equivalents	654,674,974.73	374,145,811.66

## 1. NOTES TO THE ACCOUNT

### I Company background and principle activities

Guangzhou Pharmaceutical Company Limited (the "Company") is a joint stock company with limited liability, established pursuant to a reorganization of eight Chinese patent medicine manufacturing entities and three pharmaceutical trading entities formerly under the supervision and control of Guangzhou Pharmaceutical Holdings Limited (the "Holding"). Capital injection of operating assets and the State-owned equity is in accordance with the document Tigaisheng [1997] 139 issued by the Economic Structure Reform Committee of the State. The Company obtained a business license with the official code of 63320680-x on 1 September 1997. Pursuant to the document Tigaisheng [1997] 145 issued by the Economic Structure Reform Committee of the State and the document Zhengweifa [1997] 56 issued by the Securities Committee of the State Council, the Company issued H shares which subsequently listed on The Stock Exchange of Hong Kong Limited in October 1997. Pursuant to the approval by the China Securities Regulatory Commission, the Company issued 78,000,000 A shares on 10 January 2001 which were subsequently listed on the Shanghai Stock Exchange on 6 February 2001. The total number of shares of the Company is 810,900,000, including shares owned by the State of 513,000,000, comprising 63.26% of the total shares, and shares owned by the public of 297,900,000, comprising 36.74% of the total shares.

The Company and its subsidiaries (the "Group") are engaged in asset management, investment, financing, the research, development and manufacturing of Chinese patent medicine, biological products, health medicines and drinks, and the wholesale, retail and import and export of Chinese patent medicine, Western pharmaceutical products and various medical apparatus.

The Company's structure presently includes seven Chinese patent medicine manufacturing entities and three pharmaceutical trading entities.

### II Principal Accounting Policies, Accounting Estimates and Basis of Consolidation

#### 1. Accounting Policies

From 1 January 2001, the accounting policies adopted by the Company are in accordance with "Accounting Regulations for Business Enterprises", "Accounting Standards of Business Enterprises" and relevant supplementary accounting regulations.

## 2. Accounting Period

The accounting period covers the calendar year from 1 January to 31 December.

## 3. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

## 4. Basis of Accounting and Valuation Convention

The basis of accounting adopted by the Company is the accrual basis and assets are recorded using the historical cost convention.

## 5. Foreign Currency Translation

Foreign currency translations during the year are translated into Renminbi at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the exchange rates stipulated by the People's Bank of China at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account.

## 6. Cash Equivalents

Cash equivalents are defined as investments that are short-term, highly liquid, and readily convertible to cash and are subject to a low risk of change in value at the time the Company prepares the cash flow statement.

## 7. Basis of Preparation of Consolidated Accounts

- 1) The consolidated accounts are prepared in accordance with the documents, Caizhengbu [1995] 11, of "Temporary regulation of consolidation on accounts" and Caikuaierzi [1996] 2, "Reply on the queries of scope of consolidation for consolidated accounts". The consolidated accounts have included all principle subsidiaries and have eliminated all the business transactions among the Company and its subsidiaries or among subsidiaries, based on the individual accounts of each subsidiary within the scope of consolidation.
- 2) Subsidiaries in the consolidation scope of the consolidated accounts

		Registered capital Rmb ten thousand	Invested amount of the Company to its subsidiaries Rmb ten thousand	% of equity interest	Principle activities
1	Guangzhou Xing Qun Pharmaceutical Co., Ltd.	5,350	4,500	84.11	Production of Chinese patent medicine
2	Kwang Chow First Chinese Medicine Factory	1,167	5,053	100	Production of Chinese patent medicine

3	Guangzhou Chen Li Ji Chinese Medicine Factory	752	4,159	100	Production of Chinese patent medicine
4	Guangzhou Qi Xing Pharmaceutical Factory	560	3,163	100	Production of Chinese patent medicine
5	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	6,210	5,210	83.90	Production of Chinese patent medicine
6	Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	4,332	3,532	81.53	Production of Chinese patent medicine
7	Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	6,189	5,389	87.07	Production of Chinese patent medicine
8	Guangzhou Pharmaceutical Corporation	835	5,938	100	Trading of Western pharmaceutical products and medical apparatus
9	Guangzhou Chinese Medicine Corporation	882	4,644	100	Trading of Chinese patent medicine and Chinese raw medicine
10	Guangzhou Pharmaceutical Import & Export Corporation	257	354	100	Import and export of medicine

Kwang Chow First Chinese Medicine Factory has merged with Guangzhou Zhong Sheng Pharmaceutical Factory during the period under review. Thus, Guangzhou Zhong Sheng Pharmaceutical Factory has been excluded from the consolidation scope in the current reporting period.

- 3) Subsidiaries with over 50% equity held by the Company but not included in the consolidation are as follows:

The Company holds 70% and 80% equity interest in Guangzhou Guangjing Chinese Patent Medicine Innovation Center Co., Ltd. and Guangzhou Caizhilin Baiyun Medicine Wholesales Trading Store respectively. In accordance with the documents, Caikuaierzi [1996] 2, "Reply on the queries of scope of consolidation for consolidated accounts", the Company does not include them in the consolidation based on the materiality principle since their total assets, sales and net profits to which the Company is entitled for each period are all below 10% of those of the total of the Company and its subsidiaries.

The Company holds a 51% and 53% equity interest in 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.

- 4) Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of Guangzhou Qi Xing Pharmaceutical Factory, is a foreign investment enterprise which shall apply "The accounting regulations for foreign investment enterprises in the People's Republic of China" and did not provide a provision of impairment cost for assets in accordance with "Accounting Regulations for Business Enterprises". In accordance with relevant accounting policies the Company made an adjustment for such provision for assets while preparing the consolidated accounts.

#### 8. Provision for Doubtful Debts

The Company provides an allowance for bad debts by making provision in the balance sheet. The provision will be off-set when actual bad debts arise.

Policy for bad debts recognition: If the debtor becomes bankrupt or dies, the amount remaining after deducting that portion of the debt repaid through the recoupment of the liquidated assets or estates will be the amount of the unpaid receivable. A bad debt will be recognised if the debtor does not pay back the amount that has been outstanding for three years, and it has been determined as impossible to recover after approval from the Board of Directors.

According to the requirement issued in the document Caihuizi (1999) No. 35 by the Ministry of Finance and the policy of bad debts provision approved by the Board, the Company provides an allowance for bad debts based on the aging of receivable balances. In addition, the Company provides a special provision for high risk receivables based on the financial status and liquidity of the debtor.

The provision and its rate is based on the aging of receivable balances as follows:

<b>Ageing analysis</b>	<b>Provision</b>
Within 1 year	1%
1~2 years	10%
2~3 years	30%
3~4 years	50%
4~5 years	80%
Over 5 years	100%

The above receivables include accounts receivable and other receivables. The Company provides for other receivables after deduction of the balances of inter-company debtors, unreimbursed business disbursements and other current accounts not involving a return of working capital.

## 9. Inventories

Inventories of the Company include finished goods, work in progress, raw materials, goods in transit, low-value consumables and packaging materials.

Inventories are accounted for at cost and recorded in the perpetual inventory records system.

Subsidiaries consolidated include manufacturing enterprises and trading enterprises. The respective basis of accounting for inventories is as follows:

### (1) Manufacturing enterprises:

The amount of raw materials stated at standard cost will be adjusted for price variances to arrive at the actual cost at month-end. Raw materials stated at acquisition cost are accounted for on a weighted average basis or first-in-first-out basis.

Finished goods are stated at acquisition cost and accounted for on a weighted average basis.

Low-value consumables are stated at cost and written off at issuance.



(2) Trading enterprises:

Inventories of wholesale enterprises are stated at cost and accounted for on a first-in-first-out basis.

Inventories of retailers are stated using the selling price method. The amount is adjusted for price variances to arrive at the actual cost at month end.

Inventories are stated at the lower of cost and net realizable value at the year-end. The Company provides for obsolete inventories.

10. Long-term investments

(1) Long term equity investments by the Company are stated at cost.

Those enterprises in which the Company has made an investment that represents less than 20% of the investee's issued capital, are stated at cost. For those enterprises in which the Company has made an investment that represents more than 20% but less than 50% of the investee's issued capital, the equity method of accounting is adopted. Those investments made which represent more or less than 50% of the investee's issued capital, but of which the Company has substantial control, adopt the equity method of accounting and consolidated accounts are prepared.

When the equity method is adopted, the Company recognizes investment income or loss according to its attributable share of the investee enterprise's net profit or loss. When the actual cost method is adopted, profits or cash dividends declared to be distributed by the investee enterprise are recognized as investment income in the current period.

Equity investment differences are amortized on a straight-line method over the investment period, if any, as stipulated in the investment contracts. If the investment period is not specified in the contract, the excess of the investment cost over the investor's share of owner's equity of the investee enterprise is amortized over a period of not more than 10 years. The shortfall of investment cost over the investor's share of owner's equity of the investee enterprise is amortized over a period of not less than 10 years.

(2) Bonds invested by the Company are stated at cost.

Premiums or discounts are amortized on a straight-line method when recognizing related interest income over the period between the acquisition date and the maturity date of the bond.

(3) According to the document, Caihuizi (1999) No. 35 issued by the Ministry of Finance and approved by the Board of Directors, in the event of a continuing decline in market value or changes in operating conditions of the investee enterprises, where the decline will not be recovered in the foreseeable future, the Company will provide for this based on the difference between the recoverable amount and the carrying amount of the investments.

## 11. Fixed Assets

Fixed assets include buildings, motor vehicles, machinery and equipment which have useful lives over one year and unit costs greater than RMB2,000 . Fixed assets are stated at cost. Depreciation is provided to write off the cost over their useful lives on a straight-line method, after taking into account the estimated residual value of 3% to 5% (10% for foreign investment enterprises). The annual rates of depreciation are as follows:

<b>Fixed assets category</b>	<b>Depreciation life</b>	<b>Depreciation Rate</b>
Buildings	15-50 years	1.9%-6.46%
Machinery and equipment	4-18 years	5.28%-24.25%
Motor vehicles	5-10 years	9.5%-19.4%
Electronic equipment	5-10 years	9.5%-19.4%
Office equipment	4-8 years	11.875%-24.25%
Other equipment	4-15 years	6.33%-24.25%

In the event of a continuing decline in market value of fixed assets or obsolete techniques, damage, long idle time, and other economic factors that make the recoverable amount of fixed assets fall below their net book value, the Company will create a provision for fixed assets based on the difference between the recoverable amount and net book value of the fixed assets.

## 12. Construction in progress

Construction in progress includes the following: construction and installation projects related to capital assets being constructed or repaired; actual disbursements related to new construction, re-structure and repairs of fixed assets; and net book value of fixed assets being re-structured. All actual payments that relate to construction in progress are transferred to fixed assets upon completion of construction or on completion of the condition that construction is deemed to have reached its proposed workable stage.

In the event of a long delay in construction which will continue in the foreseeable future, or an outdated of techniques and capacities which bring material uncertainty to the Company's economic interest, or other factors that actually existed for which the impairment cost that occurred on construction can be sufficiently ascertained, the Company will provide for construction in progress based on the difference between the recoverable amount and its net book value.

## 13. Intangible Assets

Intangible assets, which are mainly land use rights, are stated at cost. Amortization is provided to write off the cost of the assets evenly over their useful lives.

In the event of a replacement of intangible assets by other updated techniques which result in an unfavorable effect on the Company's profitability, or a significant decline in the current period where the decline will not be recovered in the remaining amortization period, or an expiration in the legal protection of the asset regardless of its remaining usage value,

or other factors that actually existed for which the impairment cost that occurred on the intangible assets can be sufficiently ascertained, the Company will provide for intangible assets based on the foreseeable losses.

#### 14. Long-term deferred expenses

Long-term deferred expenses are stated at cost. Amortization is provided to write off the cost evenly over the anticipated beneficial period.

#### 15. Recognition of income

Income in respect of sales of goods is recognized as follows: when the title to the goods and its major risks and rewards are passed to customers; the Company no longer has the right of supervision and control over the goods; either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale can be estimated reliably.

Income in respect of services rendered is recognized when the service is provided and either the fees are received or entitlement to fees is evidenced.

#### 16. Taxation

The Company accounts for income tax using the tax payable method.

#### 17. Change in accounting estimates

The Company originally adopted accounting policies in accordance with "Accounting Regulations for Companies Limited by Share". Pursuant to the document, Caihui [2000] 25, issued by the Ministry of Finance, the Company adopted accounting policies in accordance with "Accounting Regulations for Business Enterprises" from 1 January 2001.

Pursuant to requirements stipulated by "Accounting Regulations for Business Enterprises" and approval by the Board, the Company provided for impairment of fixed assets, intangible assets and construction in progress from 1 January 2001. The provision for fixed assets, intangible assets and construction in progress is Rmb21,431,071.51, Rmb9,384,070.90 and Rmb19,462,536.04 respectively in the current reporting period. Pre-operating expenses are fully written off to the profit and loss in the period of commencement, which replaces the previous policy for writing-off these expenses over a period of 5 years. The Company adjusted its accounting records retrospectively to account for the above changes in accounting estimates. This resulted in a decrease in retaining earnings brought forward, and net profits and retained earnings carried forward from the year 2000 of Rmb45,480,362.84, Rmb4,797,315.61 and Rmb33,356,435.30 respectively, and a corresponding decrease in the surplus reserve of Rmb12,970,306.75. The above changes in accounting estimates resulted in a negative figure in retained earnings brought forward of 2001, which has been make up by interim profit of 2001.

#### 18. Profit appropriation

The profit after tax shall be applied in the following order:

- 1) making up losses;
- 2) allocation of 10% to statutory surplus reserve fund;
- 3) allocation of 5%-10% to statutory public welfare fund;
- 4) allocation to discretionary surplus reserve fund;
- 5) payment of dividends.

The Company does not propose the payment of an interim dividend.

### **III Taxation and other additional taxes**

The type and rate of tax applicable to the Group is as follows:

#### 1. Turnover tax and other additional taxes

##### 1) Turnover tax

<b>Activity category</b>	<b>Tax category</b>	<b>Tax rate</b>
Sales of goods	Value Added Tax	17%
Sales of materials	Value Added Tax	17%
Rental income	Business Tax	5%
Income from fund occupation	Business Tax	8%

##### 2) City construction tax

The City construction tax is calculated based on 7% of total taxable turnover. Subsidiaries of the Group which are foreign invested enterprises are not subjected to City construction tax in accordance with PRC regulations.

##### 3) Education levies

The education levies are calculated based on 3% of total taxable turnover. Subsidiaries of the Group which are foreign invested enterprises are not subject to education fee tax in accordance with PRC regulations.

#### 2. Enterprise income tax

The Group accrues and pays enterprise income tax in accordance with the "Temporary regulation of enterprises income tax in the PRC".

Pursuant to document Suicaifa [2000] 1063, issued by the Finance Bureau of the Guangzhou Municipality, enterprise income tax of 2001 year for listed companies in Guangzhou City shall be firstly taxed at 33% in accordance with the statutory tax rate and

the portion over the 15% which pertains to local finance sources (60% of 18%) will be refunded to the Company from the Relevant Finance Bureau. Thus, benefit of tax refund granted by the local government is at the rate of 10.8% and actual tax levies for the Company and its subsidiaries is at the rate of 22.2%.

Pursuant to the "Corporate Enterprises Income Tax Law for Foreign Invested Enterprises in the PRC", Guangzhou Qi Xing Pharmaceutical Company Limited, applies for the corporate income tax rate at 24% and local income tax rate at 3%.

#### **IV Notes to the consolidated Accounts** **(All amounts are in Rmb unless otherwise stated)**

##### 1. Accounts receivable

##### 1) Aging analysis of accounts receivable as at 30th June 2001.

Aging	31st December 2000			30th June 2001		
	Balance	Percentage	Bad debt provision	Balance	Percentage	Bad debt provision
Within 1 year	428,329,129.31	85%	4,432,239.56	597,242,664.53	89.88%	5,341,893.33
1 ~ 2 years	22,436,085.03	4%	2,825,263.85	18,503,649.13	2.79%	2,109,161.82
2 ~ 3 years	15,632,048.55	3%	5,388,288.34	16,128,994.42	2.43%	4,700,701.48
3 ~ 4 years	22,145,204.91	4%	11,492,785.66	15,199,871.42	2.29%	11,205,212.36
4 ~ 5 years	8,954,724.66	2%	7,454,011.36	5,620,874.28	0.85%	4,873,596.87
Over 5 years	9,112,858.54	2%	9,112,858.54	11,813,753.87	1.78%	11,813,753.87
	506,610,051.00	100%	40,705,447.31	664,509,807.65	100%	40,044,319.72

2) Unless stated above, there is no amount due from a shareholder whose shareholding in the Company is 5% or above.

3) Included in the above analysis are the five largest customers, whose balances are listed below.

	30th June 2001	Aging	Reasons for outstanding
Guangdong Xinghe Pharmaceutical Company Ltd. Pingnan operation department of Nanhai Pharmaceutical Group	17,229,744.28	Within 1 year	Within credit period
Guangdong Peoples' Hospital Zhongshan Medical University Medical Company Ltd.	14,803,640.00	Within 1 year	Within credit period
	8,551,962.98	Within 1 year	Within credit period
	8,399,219.14	Within 1 year	Within credit period
Guangzhou Qiaoguang Pharmaceutical Factory	6,924,516.00	Within 1 year	Within credit period

##### 2. Other receivables

##### (1) Aging analysis of other receivables as at 30th June 2001

Aging	31st December 2000			30th June 2001		
	Balance	Percentage	Bad debt provision	Balance	Percentage	Bad debt provision
Within 1 year	73,704,217.96	41%	367,272.10	91,464,223.45	45.53%	238,691.51
1 ~ 2 years	58,810,191.88	33%	302,820.40	25,101,952.86	12.49%	49,074.01
2 ~ 3 years	20,646,908.49	11%	802,629.46	38,233,432.31	19.03%	109,487.67
3 ~ 4 years	18,340,742.48	10%	3,162,994.43	19,955,215.54	9.93%	660,885.72
4 ~ 5 years	8,663,356.92	5%	876,379.00	18,064,345.66	8.99%	8,400.00
Over 5 years	62,098.00	0%	62,098.00	8,080,378.00	4.02%	2,722,580.04
	180,227,515.73	100%	5,574,193.39	200,899,547.82	100%	3,789,118.95

## 2) Details of other receivables

	30th June 2001
Current accounts with third parties	107,107,547.70
Advances for operations	39,850,353.10
Expenses not reimbursed	18,398,700.27
Deposits	5,358,455.07
Advances for stand-by purposes	1,343,447.93
Others	28,674,557.31
	200,899,547.82

## 3. Inventories

	31st December 2000		30th June 2001	
	Balance	Provision	Balance	Provision
Goods in transit	5,871,564.98	0.00	5,914,403.45	0.00
Raw materials	86,786,844.93	0.00	85,484,138.91	0.00
Work in progress	40,289,311.68	0.00	39,353,744.33	0.00
Finished goods	53,792,235.55	0.00	39,346,861.92	0.00
Consumables	1,279,083.91	0.00	1,121,448.80	0.00
Packing Materials	19,683,529.93	0.00	30,101,185.44	0.00
Goods for process	854,332.54	0.00	1,954,746.43	0.00
Goods for resales	578,948,233.49	1,014,378.94	510,673,818.80	516,528.40
Others	2,971,742.71	0.00	0.00	0.00
	790,476,879.72	1,014,378.94	713,950,348.08	516,528.40

The company made a provision of Rmb1,014,378.94 for obsolete and slow moving stock based on the difference between the cost and net realizable value. The net realizable value of obsolete stock is calculated based on estimated selling price. The net realizable value of slow moving stock is calculated based on market price.

## 4. Deferred expenses

	Opening balance	Addition	Amortization	Closing balance
Prepaid insurance expense	2,480,262.71	2,418,907.29	1,569,538.27	998,708.94
Repair and maintenance of fixes assets	87,529.29	2,418,907.29	292,563.46	2,213,873.12
Road toll	141,800.00	137,500.00	128,989.02	105,310.98
Advertising	91,233.35	0.00	91,233.35	0.00
Stamp duty	13,029.50	0.00	13,029.50	0.00
Consumables	0.00	0.00	0.00	0.00
Deductible input VAT	55,810,812.31	50,498,268.64	55,815,159.77	50,493,921.18
Others	646,424.34	740,665.16	762,009.94	625,079.56
	59,271,091.50	53,883,325.59	58,672,523.31	54,481,893.78

## 5. Long term equity investments

Investee	Expiry date	Shareholder percentage	Closing balance	Changes under		Provision	
				Initial amount of investment	equity method during the period		
Guangdong Xinghua Health Drink Company Limited.	2008	53.00%	39,668,719.01	38,181,540.87	-434,932.29	0.00	
Guangdong Xingqun Trading Development Company Limited.	N/A	51.00%	429,458.50	751,427.00	-104,482.58	0.00	
Nanhai Southern Packing Company Limited	2011	21.42%	30,000,000.00	30,000,000.00	0.00	0.00	
Guangzhou Zhongfu Pharmaceutical Company Limited	N/A	50.00%	1,433,995.51	1,464,515.34	0.00	0.00	
Indonesia Sanyou Industrial Company Limited	2014	50.00%	973,076.06	993,240.00	0.00	512,871.18	
Everbright Bank of China	N/A		10,725,000.00	0.00	0.00	0.00	
Guangzhou Zhongsheng Medical Factory Taihe Substation	N/A	50.00%	785,315.05	1,000,000.00	0.00	785,315.05	<a>
Guangzhou Guangjin Chinese Medical Technology Innovation Company Limited	2008	70.00%	673,756.80	700,000.00	0.00	0.00	
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	593,041.50	516,930.33	0.00	0.00	
Guangzhou Jihua Medical Appliance Company Limited	N/A	30.00%	1,500,000.00	1,500,000.00	0.00	0.00	
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	20.52%	615,000.00	415,000.00	0.00	0.00	
Guangzhou Caizhilin Baiyun Medicine Wholesales Trading Stores	N/A	80.00%	400,000.00	400,000.00	0.00	0.00	
Qixing Mazhong Pharmaceutical company Limited	10	40.00%	362,826.38	362,826.38	0.00	0.00	
Communication Bank Guangzhou Branch	N/A		348,356.00	348,356.00	0.00	0.00	
Guangzhou Medicine Company Bei Jing Road Medicine Store	N/A	20.00%	218,399.05	160,000.00	0.00	0.00	
Holding Company of Nine Cities Eleven Factories Association	N/A		50,000.00	50,000.00	0.00	0.00	
Hang Zhou Medical Station Co. Ltd.	N/A	13.47%	264,000.00	264,000.00	0.00	0.00	
Consolidation Variance			1,804,463.14	0.00	0.00	0.00	<b>
			90,845,407.00	77,107,835.92	-539,414.87	1,298,186.23	

- a. Guangzhou Zhongsheng Medical Factory Taihe Substation has sustained severe losses. The factory was in the process of liquidation during 2000 and this has not yet been completed until June 2001.
- b. The consolidation variance of Rmb1,804,463.14 represents the variance between the payment, which was paid by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. in October, 1999 to buy a 32% share of Guangzhou Pangaoshou Natural Health Product Company Limited, and the share of net assets acquired. The shares of Guangzhou Pangaoshou Natural Health Product Company Limited held by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. increased from 43% to 75%.

## 6. Long term debentures investments

Debenture	Book value	Expiry date	Yearly interest rate	Cost	Opening balance	Accrued interest	Closing balance
Debenture of "Core Company"	120,000.00	1996	7.20%	120,000.00	231,896.00	7,200.00	231,896.00
Capitalised fund for electricity station	60,000.00				60,000.00		0.00
State treasury bond					0.00		
	180,000.00			120,000.00	291,896.00	7,200.00	231,896.00

## 7. Construction in progress

Project	Budget	Opening balance	Transferred Addition	to fixed asset	Closing balance	Capitalised interest expense included in closing balance	Financing source	Percentage of progress
Prepayment for equipment		1,097,153.18	3,616,852.4	0.00	4,714,005.58		Working capital	Completed but not settled
Prepayment for construction project		2,670,668.33	-2,546,622.16	0.00	124,046.17		Working capital	Completed but not settled
Relocation of Guangzhou Xingqun Pharmaceutical Company Ltd.	147,040,000.00	89,848,436.39	7,281,984.91	0.00	97,130,391.30		Working capital and loan	100%
High speed rotary sealing machine		0.00	614,000.00	0.00	614,000.00		Working capital	Completed and before use
Computerized pilular counting machine		0.00	1,123,000.00	0.00	1,123,000.00		Working capital	Completed and before use
Relocation of Kwang Chow First Chinese Medicine Factory		0.00	20,072,747.00	544,209.58	32,023,610.00		Working capital	20%
Warehouse project of Tan Jiang Cun	12,325,000.00	11,857,521.27	881,689.08	0.00	12,739,210.35		Loan	60%
Production base in Song Gang		12,468,555.57	2,546,622.16	0.00	15,015,177.73		Working capital	Completed but not settled
Office Building in Times Square		32,433,214.79	134,604.79	544,209.58	32,023,610.00		Working capital	Completed and being used
Installation of equipment		1,089,803.00	0.00	0.00	1,089,803.00		Working capital	Completed but not settled
Ash free project of Kwang Chow First Chinese Medicine Factory		0.00	80,000.00	0.00	80,000.00		Working capital	20%
Logistic center warehouse project of Guangzhou Pharmaceutical Corporation	12,580,000.00	0.00	262,232.64	0.00	262,232.64		Working capital	5%



Store in Hongjia Garden	2,040,000.00	2,042,862.50	0.00	0.00	2,042,862.50	Working capital	Completed and before use
Store in Huayou Building	3,010,000.00	3,010,000.00	0.00	0.00	3,010,000.00	Working capital	Completed and before use
Relocation and expansion of Guangzhou Chen Li Ji Chinese Medicine Factory	33,449,400.74	1,125,878.11	0.00	34,575,278.85	Working capital	98%	
Office in Fuqian Building	7,660,000.00	127,542.02	0.00	7,787,542.02	Working capital	95%	
Store in sunshine garden	1,260,000.00	1,266,205.00	0.00	0.00	1,266,205.00	Working capital	Completed and before use
Upgrade project in GMP	9,038,246.12	0.00	9,038,246.12	0.00		Working capital	
Others	406,136.00	381,835.00	0.00	787,971.00		Working capital	5%
Provision	-19,462,536.04	0.00	0.00	-19,462,536.04			
	188,875,666.86	35,702,335.95	9,582,455.70	214,995,547.11		0.00	

## 8. Long term deferred expenses

Item	Amortization period	Cost	Amortization in the period	Accumulated amortization	Closing balance	Remaining amortization period
Improvements	5 years	15,211,939.43	2,086,809.82	3,327,916.43	11,884,023.00	1-5 years
Expenditure on leasehold improvement		1,693,800.00	169,380.00	1,185,660.00	508,140.00	18 months
Expenditure on public utility		3,271,200.00	469,442.45	2,414,720.00	856,480.00	1-2 years
Small machine computer system		2,848,000.00	474,666.66	1,107,555.54	1,740,444.46	20 months
Expenditure on computer development		3,517,284.18	46,775.46	672,588.64	2,844,695.54	30 months
Installation of telephone		1,326,200.00	185,507.13	998,216.19	327,983.81	1 year
ERP system		4,875,604.42	1,834,664.67	2,616,475.27	2,259,129.15	2-5 years
Expenditure on development of electrical power		2,204,800.00	334,960.08	1,628,559.96	576,240.04	18 months
Expenditure on development of electrical power of new factory		800,000.00	67,998.00	547,986.00	252,014.00	18 months
Usage right of utilities		1,118,890.00	125,876.22	741,261.14	377,628.86	18 months
Revaluation surplus of H shares		6,196,963.49	1,096,778.19	4,908,255.91	1,288,707.58	6-12 months
GMP project improvement		4,426,817.44	452,682.00	3,326,690.85	1,100,126.59	30 months
Others		3,190,363.97	542,852.94	1,173,795.22	2,016,568.75	1-5 years
		50,681,862.93	7,888,393.62	24,649,681.15	26,032,181.78	

## 9. Profit from other operations

	Amount of current period	Amount of prior period
(1) Income from other operations		
Rental income from investment property	13,216,780.23	14,918,570.19
Sales of materials	3,486,928.71	1,297,477.04
Interest	3,482,605.04	304,805.84
Transfer of intangible assets	0.00	445,358.62
Income from advertising	1,058,100.98	2,525,885.69
Others	621,660.23	315,504.19
	21,866,075.19	19,807,601.57

(2)	Cost from other operations		
	Rental	2,137,489.21	2,002,227.03
	Sales of materials	3,156,500.68	1,325,165.14
	Others	803,929.59	448,381.35
		6,097,919.48	3,775,773.52
		15,768,155.71	16,031,828.05

## 10. Financial expenses

	<b>Amount of current period</b>	<b>Amount of prior period</b>
Net interest expenses	4,504,254.13	16,128,790.09
Net exchange loss	-317,005.54	333,230.37
Bank charges	327,107.49	316,038.26
Others	10,826.10	15,038.50
	4,525,182.18	16,793,097.22

## 11. Investment income

	<b>Amount of current period</b>	<b>Amount of prior period</b>
Equity investments		
Cost method	-1,225,504.79	3,135,085.11
Equity method	-539,414.87	344,139.13
Debentures investments	840.00	193,830.92
	-1,764,079.66	3,673,055.16

## 12. Non-operating income

	<b>Amount of current period</b>	<b>Amount of prior period</b>
Net profit from disposal of fixed assets	70,019.57	93,134.38
Gain on fixed assets counting	0.00	56,217.00
Sales of obsolete materials	23,209.16	5,643.79
Fines	25,909.59	25,567.61
Other levies refund	23.87	0.00
MTR removal compensation	0.00	2,268,088.00
Creditors written off	1,578,988.21	167,406.74
Others	1,466,551.06	1,392,777.57
	3,164,701.46	4,008,835.09

### 13. Non-operating expenses

	Amount of current period	Amount of prior period
Net loss on disposal of fixed assets	144,527.53	651,222.47
Loss on debt reconstruction	0.00	0.00
Donation	287,535.33	26,501.60
Fines	409,968.79	549,627.72
Exceptional loss	5,289.04	6,359.57
Others	4,643,139.94	2,124,059.63
Provisions	0.00	4,797,315.61
	5,490,460.63	8,155,086.60

## V Notes to the Accounts of the Company (All amounts are in Rmb unless otherwise stated)

### 1. Other receivables

Aging	31st December 2000			30th June 2001		
	Balance	%	Provision	Balance	%	Provision
Within 1 year	94,770,586.57	39%	0.00	290,583,109.53	67.26%	0.00
1-2 years	53,504,040.73	22%	150,613.06	52,985,098.49	12.27%	0.00
2-3 years	92,480,525.64	39%	0.00	69,354,381.29	16.05%	0.00
3-4 years	0.00	0%	0.00	19,126,144.35	4.42%	150,613.06
4-5 years	0.00	0%	0.00	0.00	0.00	0.00
Over 5 years	0.00	0%	0.00	0.00	0.00	0.00
	240,755,152.94	100%	150,613.06	432,048,733.66	100%	150,613.06

Included in other receivables was an amount of Rmb6,000,000 due from ultimate holding company.

### 2. Long term equity investments

Name of investee	Original investment	% equity held	Increase (decrease) in the equity	Balance at period end
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	72,422,318.70	84.11%	8,570,168.85	101,171,848.54
Kwang Chow First Chinese Medicine Factory	95,757,278.42	100%	33,971,596.59	220,772,925.49
Guangzhou Chen Li Ji Chinese Medicine Factory	84,210,759.25	100%	10,354,566.04	160,512,413.73
Guangzhou Zhong Sheng Pharmaceutical Factory	10,756,930.75	100%	0.00	0.00
Guangzhou Qi Xing Pharmaceutical Factory	126,775,482.62	100%	5,689,987.48	138,283,006.42
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	78,489,814.94	83.90%	1,653,418.16	72,129,916.09
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	85,298,132.51	81.53%	6,516,025.12	96,204,519.13
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	53,635,124.44	87.07%	4,267,071.71	60,571,453.72
Guangzhou Pharmaceutical Corporation	133,149,915.75	100%	18,139,765.70	308,865,536.28

Guangzhou Chinese Medicine Corporation	40,159,983.83	100%	3,395,346.85	60,858,081.51
Guangzhou Pharmaceutical Import & Export Corporation	8,451,925.49	100%	689,807.60	18,765,430.86
Jihua Pharmaceutical Apparatus Company Limited	500,000.00	30%	0.00	1,500,000.00
Guangzhou Guangjing Chinese Patent Medicine Technology Innovation Center Company Limited	700,000.00	70%	0.00	673,756.80
Nanhai Nanfang Packing Company Limited	30,000,000.00	21.42%	0.00	30,000,000.00
Total	820,307,666.70		93,247,754.10	1,270,308,888.57

### 3. Investment income

	<b>Amount of current period</b>	<b>Amount of prior period</b>
At cost	0.00	0.00
Under equity method	93,247,754.10	82,953,293.04
	93,247,754.10	82,953,293.04

## VI Segment information

Segments	<i>Unit: Rmb'000</i>					
	Sales		Cost of sales		Gross profit	
	Prior period	Current period	Prior period	Current period	Prior period	Current period
Manufacturing	695,220	841,457	312,457	394,393	382,763	447,064
Trading	1,460,866	1,803,514	1,310,320	1,639,612	150,546	163,902
Wholesales	1,233,656	1,588,581	1,130,300	1,468,931	103,356	119,650
Retail	195,761	173,503	152,975	132,203	42,786	41,300
Import & Export	31,449	41,430	27,045	38,478	4,404	2,952
	2,156,086	2,644,971	1,622,777	2,034,005	533,309	610,966

## VII Related party relationships and transactions

### (1) Related parties with substantial control

Name	Registered address	Principle business	Relationship with the Company	Economic nature and type	Statutory representative
Guangzhou Pharmaceutical Holdings Company Limited	45 Shamian North Guangzhou	Production and sales	Holding	company with limited liabilities	Cai Zhixiang
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	252 Renmin Central Road Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Li Xinghua
Kwang Chow First Chinese Medicine Factory	77 Shanmulan Road Guangzhou	Production and sales	Subsidiary	controlled by the State	Mai Qijie
Guangzhou Chen Li Ji Chinese	1688 Guangzhou	Production	Subsidiary	controlled	Li Guoju

Medicine Factory Guangzhou Zhong Sheng Pharmaceutical Factory	Dadao Guangzhou 32 Changhuaxin Street Duobao Road, Guangzhou	and sales Production and sales	Subsidiary	by the State controlled by the State	Mai Qijie
Guangzhou Qi Xing Pharmaceutical Factory	33 Cigang North Street, Xingang Central Road,	Production and sales	Subsidiary	controlled by the State	Zhu Bohua
Guangzhou Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	179 Renmin South Road, Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Huang Haitao
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	618~620 Jiefang North Road, Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Liao Jingguang
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	Bridge side, Jiang Village, Baiyun District, Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Chen Xiangzhi
Guangzhou Pharmaceutical Zhansheng Corporation	97 Datong Road, Guangzhou	Wholesale and retail	Subsidiary	controlled Feng	
Guangzhou Chinese Medicine Corporation	140 Guangfu South Road, Guangzhou	Wholesale and retail	Subsidiary	by the State controlled	Shu Dezhan
Guangzhou Pharmaceutical Import & Export Corporation	59 Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	by the State controlled	Tu Kejin

(2) Change in the registered capital of related parties with substantial control

*Unit: Rmb0,000*

Name	Opening balance	Increase during the period	Decrease during the period	Closing balance
Guangzhou Pharmaceutical Holdings Company Limited	100,770	0	0	100,770
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	5,350	0	0	5,350
Kwang Chow First Chinese Medicine Factory	1,167	0	0	1,167
Guangzhou Chen Li Ji Chinese Medicine Factory	752	0	0	752
Guangzhou Zhong Sheng Pharmaceutical Factory	499	0	0	499
Guangzhou Qi Xing Pharmaceutical Factory	560	0	0	560
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	6,210	0	0	6,210
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	4,332	0	0	4,332
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	6,189	0	0	6,189
Guangzhou Pharmaceutical Corporation	835	0	0	835
Guangzhou Chinese Medicine Corporation	882	0	0	882
Guangzhou Pharmaceutical Import & Export Corporation	257	0	0	257

(3) Change in shareholding or equity interest held by related parties with substantial control

*Unit: Rmb0,000*

Name	Opening balance	%	Increase during the period	%	Decrease during the period	%	Closing balance	%
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Guangzhou Pharmaceutical Holdings Company Limited	51,300	70	0	0	0	0	51,300	70
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	4,500	84.11	0	0	0	0	4,500	84.11
Kwang Chow First Chinese Medicine Factory	1,167	100	0	0	0	0	1,167	100
Guangzhou Chen Li Ji Chinese Medicine Factory	752	100	0	0	0	0	752	100
Guangzhou Zhong Sheng Pharmaceutical Factory	499	100	0	0	0	0	499	100
Guangzhou Qi Xing Pharmaceutical Factory	560	100	0	0	0	0	560	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	5,210	83.90	0	0	0	0	5,210	83.90
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	3,532	81.53	0	0	0	0	3,532	81.53
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	5,389	87.07	0	0	0	0	5,389	87.07
Guangzhou Pharmaceutical Corporation	835	100	0	0	0	0	835	100
Guangzhou Chinese Medicine Corporation	882	100	0	0	0	0	882	100
Guangzhou Pharmaceutical Import & Export Corporation	257	100	0	0	0	0	257	100

#### (4) Related party transactions

##### (i) Relationship of related parties with no substantial control

Name	Relationship to the Company
Guangzhou Tianxi Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Qiaoguang Pharmaceutical Factory	Fellow subsidiary
Guangzhou Guanghua Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Mingxing Pharmaceutical Factory	Fellow subsidiary
Guangdong Pharmaceutical Factory	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Hejigong Factory	Fellow subsidiary
Guangzhou Sanitation Production Factory	Fellow subsidiary
Guangzhou Pharmaceutical Factory	Fellow subsidiary
Guangzhou No.10 Pharmaceutical Factory	Fellow subsidiary
Guangzhou Pharmaceutical Exploration Company	Fellow subsidiary
Guangzhou Zhongfu Pharmaceutical Company Limited	Joint venture
Guangdong Xinghua Health Drink Co., Ltd.	Subsidiary
Guangzhou Guangjing Chinese Patent Medicine Innovation Centre Company Limited	Subsidiary
Baolian Development Company Limited	Fellow subsidiary

##### (ii) Purchases of goods

Name	<i>Unit: Rmb'000</i>	
	Amount of current period	Amount of current period
Guangzhou Tianxi Pharmaceutical Company Limited	7	4
Guangzhou Qiaoguang Pharmaceutical Factory	747	0
Guangzhou Mingxing Pharmaceutical Factory	698	142
Guangzhou Pharmaceutical Goods and Supply Company	85	465
Guangzhou Hejigong Factory	371	21
Guangzhou Sanitation Production Factory	3,839	1,144
Guangzhou Guanghua Pharmaceutical Company Limited	273	874
Guangzhou No.10 Pharmaceutical Factory	656	608
	6,677	3,258

The above purchases are based on the price approved by the State or by using the method in accordance with regulations set by the State.

(iii) Sales of goods

Name	<i>Unit: Rmb'000</i>	
	Amount of current period	Amount of current period
Guangzhou Tianxi Pharmaceutical Company Limited	1,445	1,581
Guangzhou Qiaoguang Pharmaceutical Factory	5,386	2,843
Guangzhou Guanghua Pharmaceutical Company Limited	165	0
Guangdong Pharmaceutical Factory	49	93
Guangzhou Pharmaceutical Goods and Supply Company	443	0
Guangzhou Hejigong Factory	25	0
Guangzhou Sanitation Production Factory	998	0
	8,511	4,517

The above sales are based on the price approved by the State or by using the method in accordance with regulations set by the State.

(iv) Receivables and payables

	<i>Unit: Rmb'000</i>	
	Opening	Closing
Receivables:		
Guangzhou Guanghua Pharmaceutical Company Limited	121	0
Guangzhou Sanitation Production Factory	0	507
Guangzhou Pharmaceutical Goods and Supply Company	0	43
Guangzhou Tianxi Pharmaceutical Company Limited	2,627	760
Guangzhou Qiaoguang Pharmaceutical Factory	3,658	3,302

Payables:		
Guangzhou Qiaoguang Pharmaceutical Factory	0	259
Guangzhou Mingxing Pharmaceutical Factory	0	507
Guangzhou Hejigong Factory	0	45
Guangzhou Tianxi Pharmaceutical Company Limited	0	33
Guangzhou Sanitation Production Factory	233	414
Guangzhou Guanghua Pharmaceutical Company Limited	-40	-94
Guangzhou No.10 Pharmaceutical Factory	0	43
Other receivables:		
Guangzhou Pharmaceutical Holdings Company Limited	6,089	8,586
Other payables:		
Guangzhou Pharmaceutical Holdings Company Limited	5,289	5,242

(v) Provision or receipt of services

		<i>Unit: Rmb'000</i>	
	<b>Note</b>	<b>Amount of current period</b>	<b>Amount of prior period</b>
Service fee on staff quarters	1	136	569
Welfare facilities	2	177	174
		313	743

Note 1

Pursuant to the Accommodation Service Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Company Limited ( the "GZPHL") on 1 September 1997 and supplemented by a notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The company agreed to pay a service fee equal to 6% per annum of the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.

Note 2

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

(vi) Rental



Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three years at a fixed annual rent (and is subject to the adjustment of standard rent as prescribed from time to time by the Guangzhou Real Estate Administration Bureau), plus utilities and other outgoings which are payable based on the actual consumption. The Company shall pay such rental charges of Rmb270,000 for the period (charges for the same period in prior year : Rmb270,000)

(vii) Guarantee

The Company has provided guarantees to related parties for its bank loans as follows:

Name	At the beginning of the period	At the end of the period
Guangzhou Pharmaceutical Trading Center	0.00	0.00

(viii) License fee

Pursuant to the Trademark License Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay license fees for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries. The Trademark License Agreement will expire on 1 September 2007. The Company shall pay the above license fee of Rmb183,000 for the period. (charges for the same period in prior year: Rmb164,000).

(xi) Prepaid rental

Pursuant to the Premises Agreement entered into by the Company and GZPHL on 28 August 1998, GZPHL agreed to grant to the Company the right to use certain units of the new office building it had built. The rental payable by the Company will be determined by reference to a 38% discount on the market rental rate at the time the formal tenancy agreement is signed. As GZPHL requires funds for constructing the new office building, the Company made an advance rental payment of Rmb6,000,000 to GZPHL in accordance with the above agreement. The advance rental payment shall be used by GZPHL exclusively for the construction of the new office building and shall offset the rental for the premises payable to GZPHL by the Company when it is due. The lease term is expected to be not less than 10 years or until the advance rental payment is fully utilized.

(x) Staff quarter reform cost

Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL 1 September 1997, GZPHL has agreed, upon request of the Company and in accordance with the prevailing Housing Reform Policy applicable in the Guangzhou Municipality, to sell staff quarters to the employees of the Group at a preferential price. For each such sale the Company agreed to pay GZPHL, within twelve months from completion

of the sale, the staff quarters reform cost which represents the difference between the preferential price and the cost (net of accumulated depreciation) paid by GZPHL for building or acquiring such staff quarters. Up to the period end, the Company shall pay an amount of Rmb62,030,000 to GZPHL for the Staff quarter reform cost. (at the end of last year: Rmb62,030,000)

### **VIII Contingent liability**

Up to 30 June, 2001, there was no material contingent liability required to be disclosed in this interim accounts.

### **IX Commitments**

Up to 30 June, 2001, the Company had capital commitments of Rmb9,905,000 (2000: Rmb52,153,000) and operating lease commitments of Rmb47,973,000 (2000: Rmb33,086,000, of which Rmb13,720,000 is payable within 1 year).

### **X Non-adjusting events occurring after the balance sheet date**

Up to 30 June, 2001, the Company had no non-adjusting events occurring after the balance sheet date.

### **XI Debt restructuring**

Up to 30 June, 2001, there were no debt restructuring processes in the Company.

### **XII Non-monetary transactions**

Up to 30 June, 2001, there were no non-monetary transactions in the Company.

**Financial report prepared in accordance with HK GAAP (Unaudited)**  
**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**(Prepared in accordance with HK GAAP)**  
**FOR THE SIX MONTHS ENDED 30TH JUNE 2001**

		<b>Unaudited</b>	
		<b>Six months ended 30th June</b>	
		<b>2001</b>	<b>2000</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	<b>2,644,971</b>	2,150,903
Cost of sales		<b>(2,034,005)</b>	(1,617,523)
Gross profit		<b>610,966</b>	533,380
Other revenues		<b>32,657</b>	33,756
Distribution costs, administrative and other operating expenses		<b>(516,821)</b>	(437,809)

Operating profit	3	<b>126,802</b>	129,327
Finance costs		<b>(18,843)</b>	(17,482)
Share of profits less losses of			
Jointly controlled entities		<b>(666)</b>	(539)
Associated companies		<b>286</b>	471
Profit before taxation		<b>107,579</b>	111,777
Taxation	4	<b>(54,194)</b>	(27,166)
Profit after taxation		<b>53,385</b>	84,611
Minority interests		<b>(1,322)</b>	(6,219)
Net profit		<b>52,063</b>	78,392
Transfer to capital reserve	13	<b>(300)</b>	(3,060)
Profit attributable to shareholders		<b>51,763</b>	75,332
Dividends	5	<b>24,327</b>	36,645
Earnings per share	6	<b>RMB0.0645</b>	RMB0.1070

No statement of recognised gains and losses is presented as net profit of Rmb52,063,000 (2000: Rmb78,392,000) shown above is the only component.

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**(Prepared in accordance with HK GAAP)**  
**AS AT 30TH JUNE 2001 AND 31ST DECEMBER 2000**

		<b>Unaudited</b>	Restated
		<b>30th June</b>	31st December
		<b>2001</b>	2000
	<i>Note</i>	<b>RMB'000</b>	<i>RMB'000</i>
Deferred expenditures		<b>84,685</b>	89,909
Fixed assets and construction in progress	7	<b>1,087,623</b>	1,135,065
Interests in jointly controlled entities		<b>39,072</b>	39,738
Interests in associated companies		<b>3,176</b>	2,967
Investment securities		<b>47,612</b>	33,003
Current assets			
Inventories		<b>713,433</b>	789,098
Trade and other receivables	8	<b>867,564</b>	678,313
Bank balances and cash		<b>1,143,008</b>	488,333
		<b>2,724,005</b>	1,955,744
Current liabilities			

Trade and other payables	9	<b>995,176</b>	929,621
Current portion of long-term bank loans	10	<b>24,000</b>	34,000
Taxation payable		<b>51,193</b>	35,520
Short-term bank loans		<b>396,620</b>	478,000
		<b>1,466,989</b>	1,477,141
Net current assets		<b>1,257,016</b>	478,603
Total assets less current liabilities		<b>2,519,184</b>	1,779,285
Financed by:			
Share capital	11	<b>810,900</b>	732,900
Share premium	12	<b>780,405</b>	120,333
Reserves	13	<b>618,682</b>	631,352
Retained earnings	14	<b>154,638</b>	89,905
Proposed dividends	5	-	24,327
Shareholders' fund		<b>2,364,625</b>	1,598,817
Minority interests		<b>114,559</b>	115,468
Long-term bank loans	10	<b>40,000</b>	65,000
		<b>2,519,184</b>	1,779,285

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**(Prepared in accordance with HK GAAP)**  
**FOR THE SIX MONTHS ENDED 30TH JUNE 2001**

	<b>Unaudited</b> <i>RMB'000</i>
Net cash inflow from operating activities	172,283
Net cash outflow from returns on investments and servicing of finance	(31,083)
Total taxation paid	(56,402)
Net cash outflow from investing activities	(51,815)
Net cash inflow from financing	621,692
Increase in cash and cash equivalents	654,675
Cash and cash equivalents at 1st January	488,333
Cash and cash equivalents at 30th June	1,143,008

Analysis of balances of cash and cash equivalents:

Bank balances and cash 1,143,008

**NOTES TO THE CONDENSED INTERIM ACCOUNTS**  
**(Prepared in accordance with HK GAAP)**

**1 Basis of preparation and accounting policies**

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA"), except that no comparatives for the cash flow statement have been given as the group has taken advantage of the transitional provision contained in Appendix 16 (37.3) to the Listing Rules of the Stock Exchange of Hong Kong which allows the comparative figures for the cash flow statement to be omitted. The omission of comparatives for the cash flow statement is not in accordance with SSAP 25 which requires that comparatives for the cash flow statement be included.

These condensed interim accounts should be read in conjunction with the 2000 annual report.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the group has changed certain of its accounting policies following its adoption of the following SSAPs which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised) Events after the balance sheet date  
SSAP 14 (revised) Leases (effective for periods commencing on or after 1 July 2000)  
SSAP 26 Segment reporting  
SSAP 28 Provisions, contingent liabilities and contingent assets  
SSAP 31 Impairment of assets  
SSAP 32 Consolidated financial statements and accounting for investments in subsidiaries

The changes to the group's accounting policies and the effect of adopting these new policies is set out below:

(a) SSAP 9 (revised) Events after balance sheet date

In accordance with the revised SSAP 9, 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.

As detailed in Note 14, opening retained earnings at 1st January 2000 have increased by Rmb21,987,000 which is the reversal of the provision for the 1999 proposed final dividend previously recorded as a liability as at 31st December 1999 although not declared until after

balance sheet date. Opening retained earnings at 1st January 2001 have increased by Rmb24,327,000 which is the reversal of the provision for 2000 proposed final dividend previously recorded as a liability as at 31st December 2000 although not declared until after the balance sheet date.

This adjustment has resulted in a decrease in current liabilities at 31st December 2000 by Rmb24,327,000 for provision for proposed dividends that is no longer required. There is no effect in current liabilities at 30th June 2001 as there is no interim dividend proposed.

(b) SSAP 26: Segment Reporting

In Note 2 to these condensed interim accounts the group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

Apart from the above, there is no significant effect arising from the changes of accounting policies.

## 2 Segment information

The Group is principally engaged in (1) manufacturing of Chinese patent medicine and (2) trading including wholesale, retail, import and export of western pharmaceutical products, Chinese patent medicine, Chinese raw medicine and medical apparatus.

(i) An analysis of the Group's revenue and results for the period by business segment is as follows :

	6 months ended 30th June 2001					Group RMB'000
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export RMB'000	Elimination RMB'000	
External	841,457	1,588,581	173,503	41,430	-	2,644,971
Internal	15,504	299,509	-	-	(315,013)	-
Total	856,961	1,888,090	173,503	41,430	(315,013)	2,644,971
Segment results	93,271	30,703	8,596	1,119	(3,743)	129,946
Unallocated costs						(3,144)
Operating profit						126,802
Finance costs						(18,843)
Share of profits less losses of						
Jointly controlled entities	(666)					(666)
Associated companies	286					286
Profit before taxation						107,579
Taxation						(54,194)

Minority interests						(1,322)
Net profit						52,063
External	692,441	1,225,267	195,839	37,356	-	2,150,903
Internal	-	80,534	-	145	(80,679)	-
Total	692,441	1,305,801	195,839	37,501	(80,679)	2,150,903
Segment results	83,024	39,833	9,847	1,527	-	134,231
Unallocated costs						(4,904)
Operating profit						129,327
Finance costs						(17,482)
Share of profits less losses of						
Jointly controlled entities	(539)					(539)
Associated companies	471					471
Profit before taxation						111,777
Taxation						(27,166)
Minority interests						(6,219)
Net profit						78,392

Unallocated costs represent corporate expenses.

- (ii) 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 attributable to markets outside PRC.

### 3 Operating profit

**6 months ended 30th June**  
**2001**                      **2000**  
*RMB'000*                      *RMB'000*

Operating profit is stated after charging the following:

Depreciation and amortisation of fixed assets	<b>34,296</b>	28,959
Impairment of fixed assets and construction in progress	<b>50,277</b>	-
Loss on disposal of fixed assets	<b>74</b>	588

### 4 Taxation

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	<b>6 months ended 30th June</b>	
	<b>2001</b>	<b>2000</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
PRC enterprise income tax	<b>54,117</b>	27,077
Share of taxation attributable to associated companies	<b>77</b>	89
	<b>54,194</b>	27,166

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. It is estimated that the local tax refund shall be amounted to Rmb15,000,000. As the tax refund application to the Guangzhou Finance Bureau is in progress, the estimated tax refund has not been accounted for in the profit and loss account for the period.

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.

## **5 Dividends**

	<b>6 months ended 30th June</b>	
	<b>2001</b>	<b>2000</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
2000 Final dividend, paid, of Rmb0.03 (1999 paid, of Rmb 0.03) per share (Note (i))	<b>24,327</b>	21,987
2001 Interim of Rmb nil (2000 paid, of Rmb 0.02) per share	-	14,658
	<b>24,327</b>	36,645

*Note:*

- (i) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 were Rmb21,987,000 and Rmb24,327,000 respectively. Under the group's new accounting policy as described in Note 1(a), these have been written back against opening retained earnings as at 1st January 2000 and 2001 in Note 14 and are now charged in the period in which they were proposed.

## **6 Earnings per share**

The calculation of earnings per share for the six months ended 30th June 2001 is based on the net profit of Rmb52,063,000 (2000: Rmb78,392,000) and the weighted average number



of 807,021,547 shares (2000:732,900,000 shares) in issue.

## 7 Fixed assets and construction in progress

	<i>RMB'000</i>
Six months ended 30th June 2001	
Opening net book amount	1,135,065
Additions	37,987
Disposals	(856)
Depreciation and amortisation	(34,296)
Impairment	(50,277)
Closing net book amount	1,087,623

## 8 Trade and other receivables

Included in trade and other receivables are trade debtors and their ageing analysis of trade receivables is as follows:

	<b>30th June 2001 <i>RMB'000</i></b>	31st December 2000 <i>RMB'000</i>
Within 6 months	<b>579,833</b>	413,173
6 months to 1 year	<b>15,690</b>	14,197
1 year to 2 years	<b>2,647</b>	6,454
	<b>598,170</b>	433,824

Trade receivables generated from credit sales generally have credit terms of one to three months.

## 9 Trade and other payables

Included in trade and other payables are trade payables and their ageing analysis is as follows:

	<b>30th June 2001 <i>RMB'000</i></b>	31st December 2000 <i>RMB'000</i>
Less than one year	<b>450,576</b>	477,378
More than one year but not exceeding two years	<b>39,331</b>	17,086
More than two years but not exceeding three years	<b>30,143</b>	22,262
	<b>520,050</b>	516,726

## 10 Long-term bank loans

	30th June 2001 <i>RMB'000</i>	31st December 2000 <i>RMB'000</i>
Bank loans, secured	64,000	99,000
Current portion of long-term bank loans	(24,000)	(34,000)
	<b>40,000</b>	<b>65,000</b>

The analysis of the above is as follows:-

Bank loans, repayable:		
Within one year	24,000	34,000
In the second year	40,000	65,000
	<b>64,000</b>	<b>99,000</b>
Current portion of long-term bank loans	(24,000)	(34,000)
	<b>40,000</b>	<b>65,000</b>

## 11 Share capital

	State Shares		Registered, issued and fully paid				Total	
	No. of Shares	RMB'000	No. of Shares	RMB'000	No. of Shares	RMB'000	No. of Shares	RMB'000
At 1st January 2001, 2000	513,000,000	513,000	219,900,000	219,900	-	-	732,900,000	732,900
Issue of shares	-	-	-	-	78,000,000	78,000	78,000,000	78,000
At 30th June 2001	513,000,000	513,000	219,900,000	219,900	78,000,000	78,000	810,900,000	810,900

On 10th January 2001, 78,000,000 A shares of Rmb 1.00 each were issued at a subscription price of Rmb 9.80 per share. These A shares were subsequently listed on the Shanghai Stock Exchange on 6th February 2001.

## 12 Share premium

	<i><b>RMB'000</b></i>
At 1st January 2001, 2000	120,333
Premium on listing of A shares net of listing expenses	660,072
At 30th June 2001	780,405

### 13 Reserves

	Capital reserve (Note a) RMB'000	Statutory surplus reserve (Note b) RMB'000	Group Statutory public welfare (Note b) RMB'000	Discretionary surplus reserve (Note b) RMB'000	Total RMB'000
Balance at 1st January 2000	425,603	59,540	60,762	45,289	591,194
Transfer from retained earnings	11,675	47,885	26,408	9,425	95,393
Transfer to retained earnings	-	(4,663)	(18,959)	(31,613)	(55,235)
Balance at 31st December 2000	437,278	102,762	68,211	23,101	631,352
Balance at 1st January 2001	437,278	102,762	68,211	23,101	631,352
Transfer from retained earnings	300	-	-	-	300
Transfer to retained earnings	-	(649)	(6,600)	(5,721)	(12,970)
Balance at 30th June 2001	437,578	102,113	61,611	17,380	618,682

#### (a) Capital reserve

The transfer in the period from retained earnings represents subsidies received from Finance Bureau as a result of the Group's subsidiary's "Advance Technology Enterprises" status.

(b) During the period, the Group had transferred certain amounts from these reserves to retained earnings as a result of changes in certain PRC accounting rules and regulations.

### 14 Retained Earnings

	Note	RMB'000
At 1st January 2000 as previously reported		33,798
Effect of adopting SSAP 9 (Revised)	1(a)	21,987
At 1st January 2000 as restated		55,785
1999 Final Dividend paid		(21,987)
Net profit for the year		135,250
Transfer to reserves		(40,158)
2000 Interim dividend paid	5	(14,658)
		114,232
Retained earnings		89,905
2000 Final dividend proposed	5	24,327
		114,232

Company and subsidiaries		118,094
Jointly controlled entities		(2,261)
Associated companies		(1,601)
At 31st December 2000		114,232
At 1st January 2001, as previously reported		89,905
Effect of adopting SSAP 9 (Revised)	1(a)	24,327
At 1st January 2001 as restated		114,232
2000 Final Dividend paid	5	(24,327)
Net profit for the period		52,063
Transfer from reserves		12,670
		154,638
Retained earnings		154,638
2001 Interim dividend proposed	5	-
		154,638
Company and subsidiaries		158,957
Jointly controlled entities		(2,927)
Associated companies		(1,392)
At 30th June 2001		154,638

## 15 Commitments

### (a) Capital commitments for fixed assets

	<b>30th June 2001 RMB'000</b>	31st December 2000 RMB'000
Contracted but not provided for	<b>9,905</b>	52,153
Authorised but not provided for	-	-
	<b>9,905</b>	52,153

### (b) Commitments under operating leases

At 30th June 2001 the Group had total future aggregate minimum lease payments as follows:

Restated

	<b>30th June 2001 RMB'000</b>	31st December 2000 RMB'000
Non cancellable operating lease in respect of land and buildings:		
Within one year	6,433	5,016
In the second to fifth year inclusive	31,211	16,624
After the fifth year	10,329	11,446
	47,973	33,086

## 16 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		<b>6 months ended 30th June</b>	
		<b>2001</b>	2000
	<i>Note</i>	<b>RMB'000</b>	<i>RMB'000</i>
Ultimate holding company			
Licence fee expense	a	<b>2,745</b>	2,309
Service fee expense	b	<b>681</b>	1,545
Staff quarters reform costs	c	-	2,446
Welfare facilities fee expense	d	<b>207</b>	202
Rental expense	e	<b>1,451</b>	1,325
Jointly controlled entities	f		
Sales of semi-finished goods		<b>556</b>	644
Purchase of finished goods and raw materials		<b>268</b>	-
Associated company	f		
Subcontracting charge paid		-	3,959
Sales of finished goods		<b>1,254</b>	923
Fellow subsidiaries	f		
Sales of finished goods and raw materials		<b>10,752</b>	16,279
Purchases of finished goods and raw materials		<b>6,677</b>	26,512

(a) Pursuant to the Trademark Licence Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("GZPHL") on 1st September 1997, GZPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a licence fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries.

(b) Pursuant to the Accommodation Services Agreement entered into by the Company

and GZPHL on 1st September 1997 and supplemented by a notice dated 31st December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31st December 2007.

- (c) Pursuant to the Accommodation Services Agreement, GZPHL has also agreed, upon request of the Company and in accordance with the prevailing Housing Reform Policy applicable in the Guangzhou Municipality, to sell staff quarters to the employees of the Group at a preferential price. For each such sale, the Company agreed to pay GZPHL within twelve months from completion of the sale, the staff reform cost which represents the difference between the preferential price and the cost (net of accumulated depreciation) paid by GZPHL for building or acquiring such staff quarters. There was no such expenses incurred in the period.
- (d) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL's total depreciation charges of the welfare facilities in the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31 December 2007.
- (e) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three years at a fixed annual rent and is subject to the adjustment of standard rent as prescribed from time to time by the Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement was extended for one year after its expiration on the same terms.
- (f) The sales and purchases transactions with jointly controlled entities, associated companies and fellow subsidiaries were at terms similar to those transactions with other third parties.