

## AUDITORS' REPORT

---

**Guangzhou Yangcheng  
Certified Public Accountants  
Co., Ltd.**

**in association with  
Coopers &  
Lybrand China**

**25/F, JLB Tower 410  
Dongfengzhong Road  
Guangzhou China  
Postal code 510040**

Telephone: (020) 8348 6230  
(020) 8348 6125  
(020) 8348 6115

Facsimile: (020) 8348 6116

### AUDITORS' REPORT

To the shareholders of Guangzhou Pharmaceutical Company Limited

We have accepted the appointment to audit the Company's balance sheet as at 31 December 2001, its profit and loss account and cash flow statement for the year then ended, the consolidated balance sheet of the Company and its subsidiaries ("the Group") as at 31 December 2001, and the Group's consolidated profit and loss account and consolidated cash flow statement for the year then ended (set out in form 1 to 8). The Company is responsible for the financial statements. Our responsibility is to express an audit opinion on these financial statements. Our audit was conducted in accordance with China's Independent Auditing Standards and consequently included such auditing procedures as were considered necessary and appropriate to the Company's circumstances, including examination, on a test basis, of the Company's transactions and accounting records.

In our opinion, the above-mentioned financial statements present fairly, in all material respects, the financial position of the Group and the Company at 31 December 2001 and their results of operation and cash flows of the Group and the Company for the year then ended in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises. The accounting policies used in the preparation of the financial statements for the year are consistent with those used in the preceding year.

Guangzhou Yangcheng Certified Public Accountants Co., Ltd.  
Guangzhou, PRC

Certified Public Accountant  
**3 April 2002**

## CONSOLIDATED BALANCE SHEET

(Prepared by Guangzhou Pharmaceutical Company Limited)

As at 31 December 2001

Monetary Unit: Renminbi Yuan

| Assets   | Note | Closing<br>balance             | Form 1-2<br>Beginning<br>balance |
|--|------|--------------------------------|----------------------------------|
| <b>Current assets</b>                                  |      |                                |                                  |
| Cash   | 6-1  | 867,407,649.48                 | 488,340,878.45                   |
| Short term investment                                  | 6-2  | 67,988,074.44                  | —                                |
| Notes receivable                                       | 6-3  | 46,710.00                      | 2,596.27                         |
| Dividends receivable                                   | 6-4  | 6,080,075.49                   | 3,013,835.00                     |
| Interest receivable                                    |      | —                              | —                                |
| Accounts receivable                                    | 6-5  | 547,182,576.57                 | 465,904,603.69                   |
| Other receivable                                       | 6-6  | 134,310,382.41                 | 174,769,981.55                   |
| Prepayments  | 6-7  | 41,166,801.83                  | 8,425,742.30                     |
| Subsidy receivable                                     | 6-8  | 5,673,006.90                   | 3,142,220.86                     |
| Inventories  | 6-9  | 833,327,684.61                 | 793,748,434.71                   |
| Prepaid expenses                                       | 6-10 | 72,488,002.63                  | 59,271,091.50                    |
| Long term debentures investment due<br>within one year |      | —                              | —                                |
| Other current assets                                   |      | —                              | —                                |
| <b>Total current assets</b>                            |      | <b><u>2,575,670,964.35</u></b> | <b><u>1,996,619,384.33</u></b>   |
| <b>Long term investment</b>                            |      |                                |                                  |
| Long term equity investment                            | 6-11 | 107,467,122.39                 | 78,989,944.21                    |
| Long term debentures investment                        |      | —                              | 187,200.00                       |
| <b>Total long term investment</b>                      |      | <b><u>107,467,122.39</u></b>   | <b><u>79,177,144.21</u></b>      |
| <b>Fixed assets</b>                                    |      |                                |                                  |
| Fixed assets – cost                                    | 6-12 | 1,120,412,464.14               | 973,948,398.77                   |
| Less: accumulated depreciation                         | 6-12 | 387,675,891.33                 | 330,510,825.50                   |
| Fixed assets – net value                               |      | 732,736,572.81                 | 643,437,573.27                   |
| Less: provisions for fixed assets                      | 6-12 | 24,753,795.66                  | 21,504,888.44                    |
| Net fixed assets                                       |      | 707,982,777.15                 | 621,932,684.83                   |
| Construction supplies                                  |      | —                              | —                                |
| Construction work in progress                          | 6-13 | 174,211,477.32                 | 191,036,658.07                   |
| Disposal of fixed assets                               |      | —                              | (1,500.00)                       |
| <b>Total fixed assets</b>                              |      | <b><u>882,194,254.47</u></b>   | <b><u>812,967,842.90</u></b>     |
| <b>Intangible assets and other assets</b>              |      |                                |                                  |
| Intangible assets                                      | 6-14 | 102,137,518.11                 | 102,426,482.69                   |
| Long term prepaid expenses                             | 6-15 | 29,768,646.47                  | 26,606,042.65                    |
| Other long term assets                                 |      | —                              | —                                |
| <b>Total intangible assets and other assets</b>        |      | <b><u>131,906,164.58</u></b>   | <b><u>129,032,525.34</u></b>     |
| <b>Deferred tax</b>                                    |      |                                |                                  |
| Deferred tax debits                                    |      | —                              | —                                |
|  |      | <b><u>3,697,238,505.79</u></b> | <b><u>3,017,796,896.78</u></b>   |



# CONSOLIDATED BALANCE SHEET

(Prepared by Guangzhou Pharmaceutical Company Limited)

As at 31 December 2001

Form 1-2

Monetary Unit: Renminbi Yuan

| Liabilities & shareholders' equity                | Note | Closing<br>balance             | Beginning<br>balance           |
|---|------|--------------------------------|--------------------------------|
| <b>Current Liabilities</b>                        |      |                                |                                |
| Short-term loans                                  | 6-16 | 387,680,000.00                 | 478,000,000.00                 |
| Notes payable                                     | 6-17 | 682,237.50                     | —                              |
| Accounts payable                                  | 6-18 | 558,201,710.52                 | 516,726,227.60                 |
| Advance from customers                            | 6-19 | 40,126,980.26                  | 29,738,338.70                  |
| Accrued payroll                                   |      | 78,160,241.50                  | 111,024,667.40                 |
| Welfare payable                                   |      | 42,446,305.75                  | 33,778,720.32                  |
| Dividends payable                                 | 6-20 | 49,198,495.25                  | 29,430,097.16                  |
| Tax payable                                       | 6-21 | 28,911,407.61                  | 45,028,421.51                  |
| Other liabilities                                 | 6-22 | 3,443,835.26                   | 3,237,358.22                   |
| Other payables                                    | 6-23 | 151,264,229.61                 | 226,017,338.89                 |
| Accrued expenses                                  | 6-24 | 4,553,878.05                   | 4,925,873.31                   |
| Estimated liabilities                             |      | —                              | —                              |
| Long-term liabilities due within one year         | 6-25 | 45,000,000.00                  | 34,000,000.00                  |
| Other current liabilities                         |      | —                              | —                              |
| <b>Total current liabilities</b>                  |      | <b><u>1,389,689,321.31</u></b> | <b><u>1,511,907,043.11</u></b> |
| <b>Long term liabilities</b>                      |      |                                |                                |
| Long term loans                                   | 6-26 | 10,000,000.00                  | 65,000,000.00                  |
| Bonds payable                                     |      | —                              | —                              |
| Long term payable                                 | 6-27 | 8,854,221.43                   | 14,119,798.94                  |
| Special payables                                  |      | —                              | —                              |
| Other long term liabilities                       |      | 5,000,000.00                   | 5,453,431.26                   |
| <b>Total long term liabilities</b>                |      | <b><u>23,854,221.43</u></b>    | <b><u>84,573,230.20</u></b>    |
| <b>Deferred tax:</b>                              |      |                                |                                |
| Deferred tax credits                              |      | —                              | —                              |
| <b>Total liabilities</b>                          |      | <b><u>1,413,543,542.74</u></b> | <b><u>1,596,480,273.31</u></b> |
| Minority shareholders' equity                     |      | 110,785,180.18                 | 94,912,997.51                  |
| <b>Shareholders' equity</b>                       |      |                                |                                |
| Share capital                                     | 6-28 | 810,900,000.00                 | 732,900,000.00                 |
| Less: investment returned                         |      | —                              | —                              |
| Net share capital                                 |      | 810,900,000.00                 | 732,900,000.00                 |
| Capital surplus                                   | 6-29 | 1,110,457,074.10               | 445,108,742.81                 |
| Reserved fund                                     | 6-30 | 251,020,754.95                 | 175,832,695.73                 |
| Including: public welfare fund                    | 6-30 | 92,757,528.43                  | 72,431,278.39                  |
| Retained earnings                                 | 6-31 | 531,953.81                     | (27,437,812.57)                |
| <b>Total shareholders' equity</b>                 |      | <b><u>2,172,909,782.87</u></b> | <b><u>1,326,403,625.96</u></b> |
| <b>Total liabilities and shareholders' equity</b> |      | <b><u>3,697,238,505.79</u></b> | <b><u>3,017,796,896.78</u></b> |

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 2-1

Monetary Unit: Renminbi Yuan

| Item   | Note        | Current<br>accumulated  | Last<br>accumulated |
|--|-------------|-------------------------|---------------------|
| <b>1 Sales</b>                               | <b>6-32</b> | <b>5,334,028,710.18</b> | 4,222,857,015.97    |
| Less: Cost of sales                          | 6-33        | <b>4,163,902,618.51</b> | 3,201,331,862.39    |
| Less: Sales tax and levies                   | 6-34        | <b>22,101,346.38</b>    | 19,792,568.06       |
| <b>2. Profit from principal operations</b>   |             | <b>1,148,024,745.29</b> | 1,001,732,585.52    |
| Add: Profit from other operations            | 6-35        | <b>36,060,658.31</b>    | 36,439,662.67       |
| Less: Operating expenses                     |             | <b>392,775,296.09</b>   | 348,172,061.02      |
| Less: General and administrative expenses    |             | <b>521,682,481.40</b>   | 466,504,180.72      |
| Less: Financial expenses                     | 6-36        | <b>7,203,000.95</b>     | 27,913,527.64       |
| <b>3. Operating profit</b>                   |             | <b>262,424,625.16</b>   | 195,582,478.81      |
| Add: Investment income                       | 6-36        | <b>(840,626.60)</b>     | 4,647,887.81        |
| Add: Subsidy income                          | 6-38        | <b>3,511,998.57</b>     | 9,288,486.45        |
| Add: Non-operating income                    | 6-39        | <b>6,524,440.99</b>     | 18,407,208.86       |
| Less: Non-operating expenses                 | 6-40        | <b>11,483,024.46</b>    | 12,787,569.70       |
| <b>4 Total profit</b>                        |             | <b>260,137,413.66</b>   | 215,138,492.23      |
| Less: Income tax                             | 6-41        | <b>103,209,535.64</b>   | 62,956,600.32       |
| Less: Loss and gain of minority shareholders |             | <b>10,794,037.41</b>    | 10,967,660.76       |
| <b>5 Net profit</b>                          |             | <b>146,133,840.61</b>   | 141,214,231.15      |

### Supplemental information

| No. | Item   | Current<br>accumulated | Last<br>accumulated |
|-----|--|------------------------|---------------------|
| 1   | Revenue from sale or disposal of department or invested company          | <b>595,612.06</b>      | —                   |
| 2   | Loss incurred from natural disaster                                      | —                      | —                   |
| 3   | Total profit increase (decrease) due to accounting policy alteration     | —                      | (5,019,951.62)      |
| 4   | Total profit increase (decrease) due to accounting estimation alteration | —                      | —                   |
| 5   | Loss from debts reconstruction   | —                      | —                   |
| 6   | Others   | —                      | —                   |



## SUPPLEMENTARY CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 2-2

Monetary Unit: Renminbi Yuan

| Profit for the period                           | the year 2001        |                  |                    |                  | the year 2000        |                  |                    |                  |
|---|----------------------|------------------|--------------------|------------------|----------------------|------------------|--------------------|------------------|
|   | Return on net assets |                  | Earnings per share |                  | Return on net assets |                  | Earnings per share |                  |
|   | Fully diluted        | Weighted average | Fully diluted      | Weighted average | Fully diluted        | Weighted average | Fully diluted      | Weighted average |
| Profit from principal operations                | 52.83%               | 55.30%           | 1.42               | 1.57             | 75.52%               | 71.08%           | 1.37               | 1.37             |
| Profit from operations                          | 12.08%               | 12.64%           | 0.32               | 0.36             | 14.75%               | 13.88%           | 0.27               | 0.27             |
| Net profit                                      | 6.73%                | 7.04%            | 0.18               | 0.20             | 10.65%               | 10.02%           | 0.19               | 0.19             |
| Net profit after deduction of exceptional items | 6.79%                | 7.11%            | 0.18               | 0.20             | 9.52%                | 8.96%            | 0.17               | 0.17             |

## CONSOLIDATED PROFIT APPROPRIATION STATEMENT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 3

Monetary Unit: Renminbi Yuan

| Item  | Current<br>accumulated      | Last<br>accumulated |
|---|-----------------------------|---------------------|
| <b>1. Net profit</b>  | <b>146,133,840.61</b>       | 141,214,231.15      |
| Add: Retained earnings brought forward                          | 6-31 <b>(27,437,812.57)</b> | (75,301,031.07)     |
| Add: Transfer from others                                       | —                           | —                   |
| <b>2. Profit distributable</b>                                  | <b>118,696,028.03</b>       | 65,913,200.08       |
| Less: Transfer to statutory surplus reserves                    | <b>26,095,588.94</b>        | 32,632,400.69       |
| Less: Transfer to public welfare fund                           | <b>18,589,803.77</b>        | 32,632,300.80       |
| Less: Transfer to staff bonus and welfare fund                  | <b>1,334,327.55</b>         | 976,655.58          |
| Less: Transfer to reserve fund                                  | <b>667,163.78</b>           | 488,327.79          |
| Less: Enterprise expansion fund                                 | <b>667,163.78</b>           | 488,327.79          |
| Less: profit returned to investment                             | —                           | —                   |
| <b>3. Profit distributable to shareholders</b>                  | <b>71,341,980.21</b>        | (1,304,812.57)      |
| Less: Dividend for preferred shares                             | —                           | —                   |
| Less: Transfer to discretionary surplus reserves                | <b>22,156,026.40</b>        | —                   |
| Less: Dividend for ordinary shares                              | 6-31 <b>48,654,000.00</b>   | 26,133,000.00       |
| Less: Dividend for ordinary shares transferred to share capital | —                           | —                   |
| <b>4. Retained earnings</b>                                     | <b>531,953.81</b>           | (27,437,812.57)     |



## CONSOLIDATED CASH FLOWS STATEMENT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 4-1

Monetary Unit: Renminbi Yuan

| Item   | Note | Amount                 |
|--|------|------------------------|
| <b>I. Cash flow from operating activities</b>  |      |                        |
| Cash received from sales of goods or rendering of services                                       |      | 6,205,940,804.18       |
| Refund of tax and levy   |      | 14,918,951.66          |
| Other cash received relating to operating activities   |      | 233,569,168.25         |
| Subtotal of cash inflows   |      | 6,454,428,924.09       |
| Cash paid for goods or services  |      | 4,901,928,652.66       |
| Cash paid to or on behalf of employees   |      | 433,834,965.83         |
| Taxes paid   |      | 437,450,763.68         |
| Other cash paid in relation to operating activities  |      | 541,060,331.92         |
| Subtotal of cash outflows  |      | 6,314,274,714.09       |
| <b>Net Cash flow from operating activities</b>   |      | <b>140,154,209.99</b>  |
| <b>II. Cash flow from investing activities</b>   |      |                        |
| Cash received from sale of investments   |      | 231,896.00             |
| Cash received from investment income   |      | 5,413,764.22           |
| Net cash received from disposal of fixed assets,<br>intangible assets and other long-term assets |      | 2,899,405.95           |
| Other cash received from investing activities  |      | 4,357,556.00           |
| Subtotal of cash inflows   |      | 12,902,622.17          |
| Cash paid to acquire fixed assets,<br>intangible assets and other long-term assets               |      | 160,436,118.56         |
| Cash paid to acquire investments   |      | 95,038,074.44          |
| Other cash paid in relation to investing activities  |      | 41,014,249.91          |
| Subtotal of cash outflows  |      | 296,488,442.91         |
| <b>Net Cash flows from investing activities</b>  |      | <b>-283,585,820.74</b> |
| <b>III. Cash flows from financing activities</b>   |      |                        |
| Proceeds from acquiring investments  |      | 764,400,000.00         |
| Cash received from minority shareholders equity<br>investment of subsidiaries                    |      | 13,622,178.00          |
| Proceeds from borrowings   |      | 417,680,000.00         |
| other proceeds relating to financing activities  |      | 543,895.00             |
| Subtotal of cash inflows   |      | 1,196,246,073.00       |
| Cash repayments of amounts borrowed  |      | 635,753,109.28         |
| Cash repayments for distribution of dividends,<br>profits or interest expenses                   |      | 6,364,601.91           |
| Cash payment for minority shareholders of subsidiaries   |      | 4,118,529.11           |
| Other cash payments relating to financing activities   |      | 27,602,697.22          |
| Subtotal of cash outflows  |      | 673,838,937.52         |
| <b>Net Cash Flows from Financing Activities</b>  |      | <b>522,407,135.48</b>  |
| <b>IV. Effect of foreign exchange rate changes on cash</b>                                       |      | <b>91,246.30</b>       |
| <b>V. Net Increase in cash and cash equivalents</b>  |      | <b>379,066,771.03</b>  |

## CONSOLIDATED CASH FLOWS STATEMENT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 4-2

Monetary Unit: Renminbi Yuan

| Item   | Amount                |
|--|-----------------------|
| <b>1. Reconciliation of net profit to cash flows from operating activities</b>                 |                       |
| Net profit   | 146,133,840.61        |
| Loss & gain of minority shareholders   | 10,794,037.41         |
| Add: Provision of value impairment of assets   | 3,043,046.36          |
| Depreciation of fixed assets   | 67,497,049.83         |
| Amortization of intangible assets  | 3,143,805.97          |
| Amortization of long-term prepaid expenses   | 12,980,806.82         |
| Decrease in prepaid expenses (less: increase)  | -13,216,911.13        |
| Increase in accrued expenses (less: decrease)  | -371,995.26           |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains) | 334,292.48            |
| Losses on scrapping of fixed assets  | 629,466.05            |
| Financial expenses   | 10,467,856.30         |
| Losses on investment (less: gain)  | -840,626.60           |
| Deferred tax credit (less: bebit)  | —                     |
| Decrease in inventories (less: increase)   | -39,579,249.90        |
| Decrease in operating receivables (less: increase)   | -86,808,793.39        |
| Increase in operating payables (less: decrease)  | 25,751,821.93         |
| Others   | 195,762.52            |
| <b>Net cash flows from operating activities</b>  | <b>140,154,209.99</b> |
| <b>2. Investing and financing activities that don't involve cash receipts or payments</b>      |                       |
| Repayment of debts by the transfer of investments  | —                     |
| Convertible bonds due within one year  | —                     |
| Fixed assets obtained by financing lease   | —                     |
| <b>3. Net increase in cash and cash equivalents</b>  |                       |
| Cash at the end of period  | 867,407,649.48        |
| Less: cash at the beginning of period  | 488,340,878.45        |
| Add: cash equivalents at the end of period   | —                     |
| Less: cash equivalents at the beginning of period  | —                     |
| <b>Net increase in cash and cash equivalents</b>   | <b>379,066,771.03</b> |



## BALANCE SHEET

(Prepared by Guangzhou Pharmaceutical Company Limited)

As at 31 December 2001

Form 5-1

Monetary Unit: Renminbi Yuan

| Assets   | Note | Closing balance                | Beginning balance              |
|--|------|--------------------------------|--------------------------------|
| <b>Current assets</b>                                  |      |                                |                                |
| Cash   |      | <b>333,582,586.83</b>          | 128,224,828.98                 |
| Short term investments                                 |      | <b>3,051,935.55</b>            | —                              |
| Notes receivable                                       |      | —                              | —                              |
| Dividends receivable                                   |      | <b>20,710,385.91</b>           | 3,399,486.99                   |
| Interest receivable                                    |      | —                              | —                              |
| Accounts receivable                                    |      | —                              | —                              |
| Other receivables                                      | 7-1  | <b>340,009,236.97</b>          | 240,604,539.88                 |
| Prepayments  |      | —                              | —                              |
| Subsidy receivable                                     |      | —                              | —                              |
| Inventories  |      | —                              | —                              |
| Prepaid expenses                                       |      | —                              | —                              |
| Long-term debentures investment<br>due within one year |      | —                              | —                              |
| Others   |      | —                              | —                              |
| <b>Total current assets</b>                            |      | <b>697,354,145.26</b>          | 372,228,855.85                 |
| <b>Long term investments</b>                           |      |                                |                                |
| Long term equity investment                            | 7-2  | <b>1,511,549,290.82</b>        | 1,034,179,534.34               |
| Long term debentures investment                        |      | —                              | —                              |
| <b>Total long term investment</b>                      |      | <b>1,511,549,290.82</b>        | 1,034,179,534.34               |
| <b>Fixed assets</b>                                    |      |                                |                                |
| Fixed assets-cost                                      |      | <b>30,074,896.76</b>           | 26,325,190.76                  |
| Less: accumulated depreciation                         |      | <b>4,833,509.98</b>            | 3,064,431.00                   |
| Fixed assets-net value                                 |      | <b>25,241,386.78</b>           | 23,260,759.76                  |
| Less: provisions for fixed assets                      |      | —                              | —                              |
| Net fixed assets                                       |      | <b>25,241,386.78</b>           | 23,260,759.76                  |
| Construction materials                                 |      | —                              | —                              |
| Construction work in progress                          |      | —                              | —                              |
| Disposal of fixed assets                               |      | —                              | —                              |
| <b>Total fixed assets</b>                              |      | <b>25,241,386.78</b>           | 23,260,759.76                  |
| <b>Intangible assets and other assets</b>              |      |                                |                                |
| Intangible assets                                      |      | —                              | —                              |
| Long term prepaid expenses                             |      | <b>2,209,641.77</b>            | 3,035,773.13                   |
| Other long-term assets                                 |      | —                              | —                              |
| <b>Total intangible assets and<br/>other assets</b>    |      | <b>2,209,641.77</b>            | 3,035,773.13                   |
| <b>Deferred tax</b>                                    |      |                                |                                |
| Deferred tax debits                                    |      | —                              | —                              |
| <b>Total assets</b>                                    |      | <b><u>2,236,354,464.63</u></b> | <b><u>1,432,704,923.08</u></b> |

## BALANCE SHEET

(Prepared by Guangzhou Pharmaceutical Company Limited)

As at 31 December 2001

Form 5-2

Monetary Unit: Renminbi Yuan

| Assets  | Note | Closing balance         | Beginning balance |
|---|------|-------------------------|-------------------|
| <b>Current liabilities</b>                        |      |                         |                   |
| Short term loans                                  |      | —                       | 30,000,000.00     |
| Notes payable                                     |      | —                       | —                 |
| Accounts payable                                  |      | —                       | —                 |
| Advance from customers                            |      | —                       | —                 |
| Accrued payroll                                   |      | 2,629,148.66            | 2,629,148.66      |
| Welfare payable                                   |      | 2,098,445.50            | 1,508,741.73      |
| Dividends payable                                 |      | 48,676,906.39           | 24,357,008.29     |
| Tax payable                                       |      | 316,535.72              | 67,207.95         |
| Other liabilities                                 |      | 11,116.36               | 7,577.98          |
| Other payables                                    |      | 6,230,507.00            | 41,762,503.53     |
| Accrued expenses                                  |      | 2,300,000.00            | 3,090,965.00      |
| Estimated liabilities                             |      | —                       | —                 |
| Long-term liabilities due within one year         |      | —                       | —                 |
| Other current liabilities                         |      | —                       | —                 |
| <b>Total current liabilities</b>                  |      | <b>62,262,659.63</b>    | 103,423,153.14    |
| <b>Long-term liabilities</b>                      |      |                         |                   |
| Long term loan                                    |      | —                       | —                 |
| Bonds payable                                     |      | —                       | —                 |
| Long term payable                                 |      | —                       | —                 |
| Special payables                                  |      | —                       | —                 |
| Other long term liabilities                       |      | —                       | —                 |
| <b>Total long term liabilities</b>                |      | —                       | —                 |
| <b>Deferred tax</b>                               |      |                         |                   |
| Deferred tax credits                              |      | —                       | —                 |
| <b>Total liabilities</b>                          |      | <b>62,262,659.63</b>    | 103,423,153.14    |
| <b>Shareholders' equity</b>                       |      |                         |                   |
| Share capital                                     |      | 810,900,000.00          | 732,900,000.00    |
| Less: investment returned                         |      | —                       | —                 |
| Net share capital                                 |      | 810,900,000.00          | 732,900,000.00    |
| Capital surplus                                   |      | 1,110,457,074.10        | 445,108,742.81    |
| Reserve fund                                      |      | 101,507,382.18          | 78,990,026.61     |
| Including: public welfare fund                    |      | 44,411,290.37           | 36,905,505.18     |
| Retained earnings                                 |      | 151,227,348.71          | 72,283,000.52     |
| <b>Total shareholders' equity</b>                 |      | <b>2,174,091,805.00</b> | 1,329,281,769.94  |
| <b>Total liabilities and shareholders' equity</b> |      | <b>2,236,354,464.63</b> | 1,432,704,923.08  |



## PROFIT AND LOSS ACCOUNT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 6

Monetary Unit: Renminbi Yuan

| Item                                      | Note | Closing balance        | Beginning balance |
|---|------|------------------------|-------------------|
| 1 Sales                                   |      | —                      | —                 |
| Less: Cost of sales                       |      | —                      | —                 |
| Less: Sales taxes and levies              |      | —                      | —                 |
| 2 Profit from principal business          |      | —                      | —                 |
| Add: Profit from other operations         |      | <b>5,102,306.96</b>    | 2,433,359.33      |
| Less: Operating expenses                  |      | —                      | —                 |
| Less: General and administrative expenses |      | <b>22,771,419.12</b>   | 13,594,661.68     |
| Financial expenses                        |      | <b>(15,726,448.75)</b> | (5,357,377.21)    |
| 3 Operating profit                        |      | <b>(1,942,663.41)</b>  | (5,803,925.14)    |
| Add: Investment income                    | 7-3  | <b>152,275,101.82</b>  | 154,736,079.55    |
| Add: Subsidy revenue                      |      | —                      | —                 |
| Add: Revenue from non-operating business  |      | <b>83.13</b>           | 10,344.91         |
| Less: Expenses for non-operating business |      | <b>216,817.78</b>      | 138,279.72        |
| 4 Total profit                            |      | <b>150,115,703.76</b>  | 148,804,219.60    |
| Less: Income tax                          |      | —                      | —                 |
| 5 Net profit                              |      | <b>150,115,703.76</b>  | 148,804,219.60    |

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

## PROFIT APPROPRIATION STATEMENT

(Prepared by Guangzhou Pharmaceutical Company Limited)  
For the year ended 31 December 2001

Form 7  
Monetary Unit: Renminbi Yuan

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



## CASH FLOWS STATEMENT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 8-1

Monetary Unit: Renminbi Yuan

| Item   | Amount                 |
|--|------------------------|
| <b>I. Cash flow from operating activities</b>  |                        |
| Cash received from sales of goods or rendering of services                                       | —                      |
| Refund of tax and levy   | —                      |
| Other cash received relating to operating activities   | 16,037,734.04          |
| Subtotal of cash inflows   | 16,037,734.04          |
| Cash paid for goods or services  | —                      |
| Cash paid to or on behalf of employees   | 6,133,666.97           |
| Taxes paid   | 209,253.69             |
| Other cash paid in relation to operating activities  | 11,022,265.70          |
| <b>Subtotal of cash outflows</b>   | <b>17,365,186.36</b>   |
| <b>Net cash flow from operating activities</b>   | <b>-1,327,452.32</b>   |
| <b>II. Cash flow from investing activities</b>   |                        |
| Cash received from sale of investments   | 30,000,000.00          |
| Cash received from investment income   | 76,255,843.38          |
| Net cash received from disposal of fixed assets,<br>intangible assets and other long-term assets | —                      |
| Other cash received from investing activities  | —                      |
| Subtotal of cash inflows   | 106,255,843.38         |
| Cash paid to acquire fixed assets,<br>intangible assets and other long-term assets               | 4,063,206.00           |
| Other cash paid in relation to investing activities  | 434,769,427.74         |
| Subtotal of cash outflows  | 120,710,853.09         |
| <b>Net cash flows from investing activities</b>  | <b>559,543,486.83</b>  |
| <b>III. Cash flows from financing activities</b>   | <b>-453,287,643.45</b> |
| Proceeds from acquiring investments  | 764,400,000.00         |
| Proceeds from borrowings   | —                      |
| Other proceeds relating to financing activities  | —                      |
| Subtotal of cash inflows   | 764,400,000.00         |
| Cash repayments of amounts borrowed  | 56,325,500.00          |
| Cash payments for distribution of dividends,<br>profits or interest expenses                     | 24,334,101.90          |
| Other cash payments relating to financing activities   | 23,858,822.28          |
| Subtotal of cash outflows  | 104,518,424.18         |
| <b>Net cash flows from financing activities</b>  | <b>659,881,575.82</b>  |
| <b>IV. Effect of foreign exchange rate changes on cash</b>                                       | <b>91,277.80</b>       |
| <b>V. Net Increase in Cash and Cash Equivalents</b>  | <b>205,357,757.85</b>  |

## CASH FLOWS STATEMENT

(Prepared by Guangzhou Pharmaceutical Company Limited)  
For the year ended 31 December 2001

Form 8-2  
Monetary Unit: Renminbi Yuan

| Supplemental information   | Amount                |
|--|-----------------------|
| <b>1. Reconciliation of net profit to cash flows from operating activities</b>                 |                       |
| Net profit   | 150,115,703.76        |
| Add: Provision of value impairment of assets   | 781,565.34            |
| Depreciation of fixed assets   | 1,769,078.98          |
| Amortization of intangible assets  | —                     |
| Amortization of long-term prepaid expenses   | 826,131.36            |
| Decrease in prepaid expenses (less: increase)  | —                     |
| Increase in accrued expenses (less: decrease)  | -790,965.00           |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains) | —                     |
| Losses on scrapping of fixed assets  | 203,593.60            |
| Financial expenses   | -9,063.46             |
| Losses on investment (less: gain)  | -152,275,101.82       |
| Deferred tax credit (less: debit)  | —                     |
| Decrease in inventories (less: increase)   | —                     |
| Decrease in operating receivables (less: increase)   | —                     |
| Increase in operating payables (less: decrease)  | -1,948,395.08         |
| Others   | —                     |
| <b>Net cash flows from operating activities</b>  | <b>-1,327,452.32</b>  |
| <b>2. Investing and financing activities that don't involve cash receipts or payments</b>      |                       |
| Repayment of debts by the transfer of investments  | —                     |
| Convertible bonds due within one year  | —                     |
| Fixed assets obtained by financing lease   | —                     |
| <b>3. Net increase in cash and cash equivalents</b>  |                       |
| Cash at the end of period  | 333,582,586.83        |
| Less: cash at the beginning of period  | 128,224,828.98        |
| Add: cash equivalents at the end of period   | —                     |
| Less: cash equivalents at the beginning of period  | —                     |
| <b>Net increase in cash and cash equivalents</b>   | <b>205,357,757.85</b> |



## BREAKDOWN OF PROVISION FOR ASSET'S VALUE IMPAIRMENT

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

Form 9

Monetary Unit: Renminbi Yuan

| Item   | balance | Beginning<br>increase | Current<br>recovery | Current<br>balance | Closing       |
|--|---------|-----------------------|---------------------|--------------------|---------------|
| 1. Total provision for bad debts               |         | 46,279,640.70         | -2,779,983.52       | —                  | 43,499,657.18 |
| Including: Accounts receivable                 |         | 40,705,447.31         | -6,792,229.98       | —                  | 33,913,217.33 |
| Other receivables                              |         | 5,574,193.39          | 4,012,246.46        | —                  | 9,586,439.85  |
| 2. Total provision for short-term investment   |         | —                     | 910,056.63          | —                  | 910,056.63    |
| Including: Stock investment                    |         | —                     | 910,056.63          | —                  | 910,056.63    |
| Debenture investment                           |         | —                     | —                   | —                  | —             |
| 3. Total provision for inventories             |         | 3,013,103.65          | -1,537,948.56       | —                  | 1,475,155.09  |
| Including: Goods in stock                      |         | 516,528.40            | 654,811.82          | —                  | 1,171,340.22  |
| Raw materials                                  |         | 2,496,575.25          | -2,192,760.38       | —                  | 303,814.87    |
| 4. Total provision for long-term investment    |         | 1,185,315.05          | 8,324,363.41        | —                  | 9,509,678.46  |
| Including: Long-term equity investment         |         | 1,185,315.05          | 8,324,363.41        | —                  | 9,509,678.46  |
| Long term debenture investment                 |         | —                     | —                   | —                  | —             |
| 5. Total provision for fixed assets            |         | 21,504,888.44         | 3,248,907.22        | —                  | 24,753,795.66 |
| Including: Houses & buildings                  |         | 4,740,928.89          | 5,440,079.34        | —                  | 10,181,008.23 |
| Machinery equipment                            |         | 16,438,681.96         | -2,191,172.12       | —                  | 14,247,509.84 |
| 6. Provision for intangible assets             |         | 9,384,070.90          | —                   | —                  | 9,384,070.90  |
| Including: Patent                              |         | —                     | —                   | —                  | —             |
| Trademark                                      |         | —                     | —                   | —                  | —             |
| 7. Provision for construction work in progress |         | 17,301,544.83         | -5,373,069.34       | —                  | 11,928,475.49 |
| 8. Provision for loan by trust                 |         | —                     | —                   | —                  | —             |

*(Prepared by Guangzhou Pharmaceutical Company Limited)*

*For the year ended 31 December 2001*

### **I Basic condition of the Company**

Guangzhou Pharmaceutical Company Limited (the "Company") is a joint stock company with limited liability established initially in this form in the People's Republic of China 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") with the capital injection of operating assets and the state owned equity in accordance with the TGS (1997) 139 article 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 TGS (1997) 145 article issued by the Economic Structure Reform Committee of the State and the ZWF (1997) 56 article issued by the Securities Committee of the State Council, the Company issued 219.9 million H shares listed on The Stock Exchange of Hong Kong Limited in October 1997. After obtaining approval from the China Securities Regulatory Committee, the Company issued 78 million A shares listed on The Shanghai Stock Exchange on 10 January 2001. The A shares were listed on The Shanghai Stock Exchange on 6 February 2001. The total number of shares of the Company is Rmb810,900,000, including shares owned by the State of Rmb513,000,000, comprising 63.26% of the total shares, and public shares of Rmb297,900,000, comprising 36.74% of the total shares.

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

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

### **II Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements**

#### **1. Accounting System**

The accounting policies adopted by the Group are in accordance with "Accounting Standards of Business Enterprises" and "Accounting Regulations for Business Enterprises".

#### **2. Accounting Period**

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

#### **3. Currency Adopted in Accounting Records**

Accounting records are maintained in Renminbi.

#### **4. Basis of Recording and Valuation**

Basis of Recording adopts the accrual concept and the Basis of Valuation is stated at historical cost.



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### II Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements (continued)

#### 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, 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. Provision for Bad Debts

The Group provides an allowance for bad debts. The provision will be reversed when bad debts arise.

Certified standard of bad debts recognition: If the debtor becomes bankrupt or dies, the amount remaining after deducting that portion of the debt repaid, will be the amount of the unpaid receivable; The debtor does not pay back a debt that has been outstanding for three years, and it has been determined as impossible to recover after the approval of the Board of Directors.

According to the certified standard of provision for bad debts approved by the Board of Directors, the Group 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:

| Aging         | Provision |
|---------------|-----------|
| 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 includes accounts receivable and other receivables. The Company provides a provision for other receivables after deduction of the balance of inter-company debtors, unreimbursed business disbursements and other current accounts not related to repayment of accounts.

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### **II Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements (continued)**

#### **8. Inventories**

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

Inventories are valued based on the perpetual accounts record and cost of acquisition.

Consolidated subsidiaries include manufacturing enterprises and commercial enterprises. The respective Basis of Valuation 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 acquisition cost and fully amortized upon date issued for use.

##### **(2) Commercial enterprises:**

Inventories of wholesale enterprises are stated at acquisition 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 actual cost at month end.

Inventories are checked at the year-end. In case that the costs are higher than the realizable values owing to damage, obsolescence or low selling price, the Group will provide a provision for inventories for the difference.

#### **9. Short-term investments**

(1). Short-term investments of the Group are recorded at total price on acquisition deducting the cash dividends or interest which have been declared but unpaid. Cash dividends or interest shall be offset against the carrying amount of investments upon receipt. On disposal of an investment, the difference between the sale proceeds received and the carrying amount of the investment shall be recognized as an investment gain or loss in the current period.

(2). Short-term investments of the Group are priced at the lower of cost and market value. At the year-end, if market value is lower than cost, a provision will be made for the difference.



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### II Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements (continued)

#### 10. Long-term equity investments

Long term equity investments by the Group are stated at the original cost.

For those investments that represent less than 20% of the investee's issued capital, or at 20% or above but the Company has no significant influence on the investee, the cost method is adopted. For those investments that represents 20% or above of the investee's issued capital, or less than 20% but the Company has significant influence on the investee, the equity method of accounting is adopted. Investments made which represent more or less than 50% of the investee's issued capital, but the Company has substantial control on the investee, the equity method of accounting is adopted and consolidated financial statements 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 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 averagely over the investment period, if any, as stipulated in the investment contract. 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 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.

#### 11. Long-term debenture investments

Debentures invested by the Company are stated at investment cost and investment income is accounted for at cost method.

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 debenture.

#### 12. Provision for long-term investments

Approved by the Board of Directors, in the event of a continuing decline in market value or deterioration in operating conditions of the investee enterprise where the decline will not be recovered in the foreseeable future, the Company will make provision for this based on the difference between the recoverable amount and the carrying amount of the investment.

#### 13. Fixed Assets and Depreciation

Fixed assets include buildings, motor vehicles, machinery and equipment which have useful lives over one year and whose unit costs are greater than Renminbi 2,000. 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:

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

**II Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements (continued)**

**13. Fixed Assets and Depreciation (continued)**

| Fixed assets category   | Depreciation life | Depreciation Rate |
|-------------------------|-------------------|-------------------|
| 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%      |

When depreciation is provided to the assets with a value impairment provision, the depreciation rate and amount are recomputed based on the book value of assets (i.e., original cost less accumulated depreciation and provision), and the remaining useful lives; in case the value of fixed assets with provision is recovered, the depreciation rate and amount shall be recomputed at the new book value.

In the event that the fixed assets' recoverable amounts are less than the carrying value due to a continuing decline in market value or obsolesce, damage, long idleness or other economic reasons, the Group will provide provision for the difference.

**14. Construction work in progress**

- (1). Project cost of Construction work in progress is determined based on the actual cost, and transferred to fixed assets when the work reaches its expected usable condition.
- (2). In the event that the construction work is suspended for a long period and will not restart in the foreseeable future, or is outdated in function or technology, and the economic proceeds which the work will bring are very uncertain, or with other full elements evidencing that value of the construction work is impaired, a provision will be provided for the difference between the recoverable amount and the carrying amount of the construction work.

**15. Intangible assets and Amortization**

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

Intangible assets of the Group are priced at the lower of book value and recoverable amount. At the year-end, if recoverable amount is lower than book value, a provision will be made for the difference.

**16. 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.

Pre-operating expenses are recorded in long-term deferred expenses upon occurrence, and fully amortized in the first month of formal operation.



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### II Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements (continued)

#### 17. Accounting for borrowing cost

Borrowing costs relating to operations are taken to financial expenses of the current period.

The interest incurred in the acquisition of long-term assets is capitalized before the project is delivered for use, and included as a project cost.

The capitalization amount of financing costs is calculated based on the weighted average amount of period-end accumulated expenditures incurred for the acquisition or construction of long-term assets timing the capitalization rate.

#### 18. Recognition of income

Income in respect of sales of goods is recognized when the title to the goods and its major risks and rewards are passed to customers, the Company will not execute 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 of goods can be estimated reliably.

Income in respect of service rendered is recognized on completion of contracts and either contracted fees are received or entitlement to fees is evidenced.

#### 19. Taxation

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

#### 20. Changes in accounting policies and accounting estimates

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

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

The Company has applied retrospectively for the aforesaid changes in accounting policies and adjusted opening balance of retained earnings and other items. The accumulated amounts of last year in the income statement and the profit appropriation statement have been also adjusted. Such changes of accounting policies led to a decrease of Rmb28,021,923.81 to the opening balance of retained earnings, a decrease of Rmb18,243,272.21 to the opening balance of reserve fund, a decrease of Rmb5,019,951.62 to the net profit of the year 2000, and a decrease of Rmb24,669,668.79 to the opening balance of retained earnings of the year 2000.

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

## II Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements (continued)

### 21. Basis of preparation of consolidated financial statements

The consolidated financial statements are prepared in accordance with (1995) 11 article of "Temporary regulation of consolidation on financial statements" and CKEZ (1996) 2 article of "Reply on the consolidation scope for the consolidated financial statements" issued by the Ministry of Finance. The consolidated financial statements have included all principal subsidiaries in the consolidation scope and eliminated sufficiently the business activities between the Company and its subsidiaries or between subsidiaries, based on the individual financial statements of the Company and each subsidiary in the consolidation scope.

## III Taxation and Other Additional Taxes

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

### 1. Circulating tax and other additional taxes

#### 1) Circulating tax

| Activity category                  | Tax category    | Tax rate |
|------------------------------------|-----------------|----------|
| 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    | 7%       |
| Income from sales of wine products | Consumption Tax | 10%      |

#### 2) City construction tax

The city construction tax is calculated and paid based on 7% of the total amount of circulating tax. Subsidiaries of the Group which are foreign invested enterprises are not subjected to city construction tax in accordance with PRC regulations.

#### 3) Education surcharge

The education surcharge is calculated and paid based on 3% of total circulating tax. Subsidiaries of the Group which are foreign invested enterprises are not subjected to education surcharge in accordance with PRC regulations.

### 2. Enterprise income tax

The Group accrues and pays enterprise income tax in accordance with "Temporary regulation of corporate income tax in the People's Republic of China".

Pursuant to SCF (2000)1063 article issued by the Guangzhou Finance Bureau, in the year 2001, the listed companies in Guangzhou are firstly levied enterprise income tax at the rate of 33%, and then enjoy a tax refund privilege on part of local income (18%\*60%). So, actually, the Group paid the enterprise income tax at a rate of 22.2% in the current year.

Pursuant to "Enterprise Income Tax Law for Foreign Invested Enterprise in the People's Republic of China", Guangzhou Qi Xing Pharmaceutical Company Limited, one of the Company's subsidiaries, applies the enterprise income tax rate of 24% and local income tax rate of 3%.



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### IV. Subsidiaries and Joint Ventures

#### 1. Major subsidiaries in the consolidation scope of the consolidated financial statements

| Name of the Company                                  | Registered capital<br>Rmb 0'000 | Invested amount of the Company to its subsidiaries<br>Rmb 0'000 | % of equity interest | Principle activities   |
|--|---------------------------------|---|----------------------|--|
| Guangzhou Xing Qun Pharmaceutical Co., Ltd.          | 7,717                           | 6,867   | 88.99                | Production of Chinese patent medicine                            |
| Kwang Chow First Chinese Medicine Factory            | 16,600                          | 15,000  | 90.36                | Production of Chinese patent medicine                            |
| Guangzhou Chen Li Ji Chinese Medicine Factory        | 9,000                           | 9,000   | 100                  | Production of Chinese patent medicine                            |
| Guangzhou Qi Xing Pharmaceutical Factory             | 8,242                           | 8,242   | 100                  | Production of Chinese patent medicine                            |
| Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.     | 8,623                           | 7,623   | 88.40                | Production of Chinese patent medicine                            |
| Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.      | 6,544                           | 5,744   | 87.78                | Production of Chinese patent medicine                            |
| Guangzhou Yang Cheng Pharmaceutical Co., Ltd.        | 10,638                          | 9,838   | 92.48                | Production of Chinese patent medicine                            |
| Guangzhou Pharmaceutical Corporation                 | 22,200                          | 20,000  | 90.09                | Trading of Western pharmaceutical products and medical apparatus |
| Guangzhou Chinese Medicine Corporation               | 6,500                           | 6,500   | 100                  | Trading of Chinese patent medicine and Chinese raw medicine      |
| Guangzhou Pharmaceutical Import & Export Corporation | 1,500                           | 1,500   | 100                  | Import and export of medicine                                    |

2. Kwang Chow First Chinese Medicine Factory merged with Guangzhou Zhong Sheng Pharmaceutical Factory in the reporting period. Consequently, Guangzhou Zhong Sheng Pharmaceutical Factory is not included in the consolidation scope any longer.

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

The Company holds 90%, 82% and 80% equity interest respectively in Guangzhou Hanfang modern Chinese Patent Medicine Research & Development Co., Ltd. (named as Guangzhou Guangjing Chinese Patent Medicine Innovation Center Co., Ltd. before), Guangzhou Baidi Bio-medicine Co., Ltd. and Guangzhou Medicine Commodities Exhibition Store, but does not include them in the consolidation based on the material principle since their total assets, sales and net profit to which the Company is entitled to for each period are all below 10% of those of the total of the Company and its subsidiaries.

The Company holds 51% and 53% equity interest of Guangzhou Xing Qun Trading and development Co., Ltd. and Guangdong Xinghua Health Drink Co., Ltd. respectively, but does not include them in the consolidation as the Company does not have substantial control over these two companies pursuant to relevant contracts and articles of association.

4. Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of Guangzhou Qi Xing Pharmaceutical Factory, is an enterprise with foreign investment which still applied "Accounting Regulation of PRC for Enterprises with Foreign Investment" and did not provide provision for asset value impairment in accordance with "Accounting Regulations for Business Enterprises". The Company made an adjustment for the such provision for value impairment of assets while preparing the consolidated financial statements as set out in Point II "Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements".

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

## V. Profit Appropriation

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

- 1). allocated against losses;
- 2). allocation to statutory surplus reserve fund;
- 3). allocation to statutory public welfare fund;
- 4). allocation to discretionary surplus reserve fund;
- 5). payment of dividends.

The distribution of profit after tax and payment of dividends shall be proposed by the Board of Directors and approved by the shareholders' general meeting. Unless the shareholders come to another agreement, the Board of Directors is authorized by the shareholders' general meeting to declare and pay interim dividends.

## VI. Notes to Consolidated Financial Statements

(All amounts are stated in Rmb Yuan unless otherwise stated)

### 1 Bank balances and cash

|                  | Closing<br>balance    | Beginning<br>balance  |
|------------------|-----------------------|-----------------------|
| Cash on hand     | 903,296.98            | 607,564.33            |
| Cash in bank     | 863,936,517.81        | 485,994,324.73        |
| Cash equivalence | 2,567,834.69          | 1,738,989.39          |
|                  | <u>867,407,649.48</u> | <u>488,340,878.45</u> |

#### 1) Breakdown of cash in bank

|                 | Closing<br>balance    | Beginning<br>balance  |
|-----------------|-----------------------|-----------------------|
| Current deposit | 517,661,462.06        | 361,810,995.33        |
| Fixed deposit   | 346,275,055.75        | 124,183,329.40        |
|                 | <u>863,936,517.81</u> | <u>485,994,324.73</u> |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 1 Bank balances and cash (continued)

##### 2) Breakdown of cash equivalents

|                     | Closing<br>balance         | Beginning<br>balance       |
|---------------------|----------------------------|----------------------------|
| Credit card deposit | 796,196.84                 | 1,168,594.48               |
| L/C deposit         | 1,771,637.85               | 570,394.91                 |
|                     | <b><u>2,567,834.69</u></b> | <b><u>1,738,989.39</u></b> |

A demand deposit with an amount of Hkd 24,979.91 has been placed in Hong Kong and is equivalent to Rmb 26,493.69.

#### 3) Compared with the opening balance, the closing balance has increased 77.66% or Rmb379.067 million. Main reasons for the increase includes:

- There is a considerable increase in the current main operating income, which lead to a net cash flow from operating activities at an amount of Rmb140.154 million;
- In the current year, capital raised from issuance of A shares amounted to Rmb764.400 million, which brings Rmb 522.407 million to net cash flow from financing activities, the net cash flow from investing activities was reduced by Rmb283,586 million.

#### 2 Short-term investments

|                     | Closing<br>balance          | Provision                | Market price<br>at the year-end |
|---------------------|-----------------------------|--------------------------|---------------------------------|
| Stock               | 5,215,492.18                | 910,056.63               | Note 4,305,435.55               |
| Treasury bill       | 43,682,638.89               | 0.00                     | 46,199,707.00                   |
| Financing on behalf | 20,000,000.00               | 0.00                     | N/A                             |
|                     | <b><u>68,898,131.07</u></b> | <b><u>910,056.63</u></b> |                                 |

Note: According to the closing price of The Shanghai Stock Exchange and The Shenzhen Stock Exchange on 31 December 2001, the Group made a provision for the amount of which the market price is lower than cost.

#### 3 Notes receivable

The balance of Rmb 46,710.00 represents a bank acceptance bill.

## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 4 Dividend receivable

|   | <b>Closing<br/>balance</b> | Beginning<br>balance       |
|---|----------------------------|----------------------------|
| Nanhai Southern Packing<br>Company Limited          | <b>5,128,565.00</b>        | 3,013,835.00               |
| GETDD Yongcheng<br>Medicine Trading Co., Ltd.       | <b>650,667.30</b>          | 0.00                       |
| Guangzhou Zhongfu Pharmaceutical<br>company Limited | <b>300,843.19</b>          | 0.00                       |
|   | <b><u>6,080,075.49</u></b> | <b><u>3,013,835.00</u></b> |

#### 5 Accounts receivable

##### (1) Aging analysis of accounts receivable

| Aging                              | Balance                      | Closing balance       |                             |                         |
|------------------------------------|------------------------------|-----------------------|-----------------------------|-------------------------|
|                                    |                              | Percentage            | Bad debt<br>provision       | Provision<br>Percentage |
| Within 1 year                      | 524,471,292.83               | 90.26%                | 5,500,744.29                | 1.05%                   |
| Over 1 year<br>and within 2 years  | 14,313,546.58                | 2.46%                 | 1,465,730.64                | 10.24%                  |
| Over 2 years<br>and within 3 years | 14,536,322.53                | 2.50%                 | 4,360,896.76                | 30.00%                  |
| Over 3 years<br>and within 4 years | 8,087,606.35                 | 1.39%                 | 4,043,803.17                | 50.00%                  |
| Over 4 years<br>and within 5 years | 5,724,915.70                 | 0.99%                 | 4,579,932.56                | 80.00%                  |
| Over 5 years                       | 13,962,109.91                | 2.40%                 | 13,962,109.91               | 100.00%                 |
|                                    | <b><u>581,095,793.90</u></b> | <b><u>100.00%</u></b> | <b><u>33,913,217.33</u></b> | <b><u>5.84%</u></b>     |

| Aging                              | Balance                      | Beginning balance     |                             |                         |
|------------------------------------|------------------------------|-----------------------|-----------------------------|-------------------------|
|                                    |                              | Percentage            | Bad debt<br>provision       | Provision<br>Percentage |
| Within 1 year                      | 428,329,129.31               | 84.55%                | 4,432,239.56                | 1.03%                   |
| Over 1 year<br>and within 2 years  | 22,436,085.03                | 4.43%                 | 2,825,263.85                | 12.59%                  |
| Over 2 years<br>and within 3 years | 15,632,048.55                | 3.09%                 | 5,388,288.34                | 34.47%                  |
| Over 3 years<br>and within 4 years | 22,145,204.91                | 4.37%                 | 11,492,785.66               | 51.90%                  |
| Over 4 years<br>and within 5 years | 8,954,724.65                 | 1.77%                 | 7,454,011.36                | 83.24%                  |
| Over 5 years                       | 9,112,858.55                 | 1.79%                 | 9,112,858.54                | 100.00%                 |
|                                    | <b><u>506,610,051.00</u></b> | <b><u>100.00%</u></b> | <b><u>40,705,447.31</u></b> | <b><u>8.03%</u></b>     |

From the balance aforementioned, no account is due from shareholders with a 5% or more shareholding.



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 5 Accounts receivable (continued)

- 2) From the balance aforementioned, Rmb48,862,846.95 is owed by the top five customers with the largest balance, representing 8.41% of the total balance.
- 3) The bad debts provision has been written off by 791 items, amounted to Rmb 18,084,507.36, of accounts receivable. Among them, no related party transaction was involved.

#### 6 Other receivables

##### (1) Aging analysis of other receivables as at December 31, 2000

| Aging                              | Balance               | Closing balance |                     | Provision Percentage |
|------------------------------------|-----------------------|-----------------|---------------------|----------------------|
|                                    |                       | Percentage      | Bad debt provision  |                      |
| Within 1 year                      | 94,935,283.23         | 65.97%          | 401,537.65          | 0.42%                |
| Over 1 year<br>and within 2 years  | 13,863,735.85         | 9.63%           | 600,229.40          | 4.33%                |
| Over 2 years and<br>within 3 years | 13,937,386.62         | 9.69%           | 785,219.59          | 5.63%                |
| Over 3 years<br>and within 4 years | 7,578,614.79          | 5.27%           | 936,966.02          | 12.36%               |
| Over 4 years<br>and within 5 years | 5,628,534.90          | 3.91%           | 2,168,440.39        | 38.53%               |
| Over 5 years                       | 7,953,266.87          | 5.53%           | 4,694,046.80        | 59.02%               |
|                                    | <u>143,896,822.26</u> | <u>100.00%</u>  | <u>9,586,439.85</u> | <u>6.66%</u>         |

| Aging                              | Balance               | Beginning balance |                     | Provision Percentage |
|------------------------------------|-----------------------|-------------------|---------------------|----------------------|
|                                    |                       | Percentage        | Bad debt provision  |                      |
| Within 1 year                      | 73,820,877.17         | 40.90%            | 367,272.10          | 0.50%                |
| Over 1 year<br>and within 2 years  | 58,810,191.88         | 32.63%            | 302,820.40          | 0.51%                |
| Over 2 years<br>and within 3 years | 20,646,908.49         | 11.46%            | 802,629.46          | 3.89%                |
| Over 3 years<br>and within 4 years | 18,340,742.48         | 10.18%            | 3,162,994.43        | 17.25%               |
| Over 4 years<br>and within 5 years | 8,663,356.92          | 4.81%             | 876,379.00          | 10.12%               |
| Over 5 years                       | 62,098.00             | 0.03%             | 62,098.00           | 100.00%              |
|                                    | <u>180,344,174.94</u> | <u>100.00%</u>    | <u>5,574,193.39</u> | <u>3.09%</u>         |

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

**VI. Notes to Consolidated Financial Statements (continued)**

**6 Other receivables**

**2) Details of other receivables**

|                                       | <b>Closing balance</b> |
|---------------------------------------|------------------------|
| Current account with external company | 82,058,455.41          |
| Advance for operation                 | 42,213,568.07          |
| Expense not claimed                   | 6,374,262.57           |
| Deposit                               | 9,277,437.08           |
| Petty cash                            | 616,054.49             |
| Others                                | 3,357,044.64           |
|                                       | <u>143,896,822.26</u>  |

Among the other receivable accounts, the amount due from shareholders with a 5% or more shareholding is due from the Holding amounted to Rmb 6,706,158.91.

**3)** From the balance aforementioned, Rmb32,642,748.32 is owed by the top five customers and represents 22.68% of the total balance.

**4)** The bad debts provision has been written off by 13 items of other receivables with an amount of Rmb 70,825.31. Among them, no related party transaction is involved.

**7 Advance to suppliers**

From the balance aforementioned, no advance is paid to shareholders with a 5% or more shareholding.

**8 Subsidy receivable**

|                       | <b>Closing balance</b>     | Beginning balance   |
|-----------------------|----------------------------|---------------------|
| Export tax refundable | <b>5,673,006.90</b>        | 3,140,178.87        |
| Others                | <b>0.00</b>                | 2,041.99            |
|                       | <u><b>5,673,006.90</b></u> | <u>3,142,220.86</u> |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 9 Inventories

|                   | Closing balance       |                     | Beginning balance     |                     |
|-------------------|-----------------------|---------------------|-----------------------|---------------------|
|                   | Balance               | Provision           | Balance               | Provision           |
| Goods in transit  | 5,479,287.87          | 0.00                | 5,871,564.98          | 0.00                |
| Raw material      | 91,458,334.51         | 303,814.87          | 90,733,700.76         | 2,496,575.25        |
| Work in progress  | 39,868,567.80         | 0.00                | 41,627,114.49         | 0.00                |
| Finished goods    | 48,502,329.65         | 81,488.32           | 53,792,235.55         | 0.00                |
| Consumables       | 1,474,055.26          | 0.00                | 1,279,083.91          | 0.00                |
| Packing Material  | 29,363,183.25         | 0.00                | 19,683,529.93         | 0.00                |
| Goods for process | 906,026.31            | 0.00                | 854,332.54            | 0.00                |
| Stock goods       | 617,745,095.37        | 1,089,851.90        | 579,948,233.49        | 516,528.40          |
| Others            | 5,959.68              | 0.00                | 2,971,742.71          | 0.00                |
|                   | <b>834,802,839.70</b> | <b>1,475,155.09</b> | <b>796,761,538.36</b> | <b>3,013,103.65</b> |

The Company made a provision of Rmb 1,475,155.09 for obsolete and slow moving stock and those whose selling prices are lower than the cost based on the difference between the cost and net realizable value. Within the provision, Rmb 740,451.19 is provided at the difference of the highest retailing price stipulated by the State lower than the cost. The net realizable value of obsolete stock is calculated based on estimated proceeds. The net realizable value of slow moving stock is calculated based on market price.

#### 10 Pre-paid expense

|  | Beginning balance    | Addition             | Amortization         | Closing balance      |
|--|----------------------|----------------------|----------------------|----------------------|
| Insurance expense                      | 2,480,262.71         | 3,327,147.40         | 3,755,112.16         | 2,052,297.95         |
| Repair and maintenance of fixes assets | 87,529.29            | 4,066,479.73         | 1,642,266.37         | 2,511,742.65         |
| Road toll                              | 141,800.00           | 297,150.00           | 284,400.00           | 154,550.00           |
| Advertising                            | 91,233.35            | 95,876.65            | 187,110.00           | 0.00                 |
| Stamp tax                              | 13,029.50            | 0.00                 | 13,029.50            | 0.00                 |
| Deductible input VAT                   | 55,810,812.31        | 72,313,513.24        | 60,517,632.44        | 67,606,693.11        |
| Others                                 | 646,424.34           | 1,740,046.28         | 2,223,751.70         | 162,718.92           |
|  | <b>59,271,091.50</b> | <b>81,840,213.30</b> | <b>68,623,302.17</b> | <b>72,488,002.63</b> |

(Prepared by Guangzhou Pharmaceutical Company Limited)  
For the year ended 31 December 2001

**VI. Notes to Consolidated Financial Statements (continued)**

**11 Long-term equity investment**

**(1). Details of long-term equity investment are as follows:**

| Investee  | Expired date | Shareholder percentage | Initial amount of investment |
|---|--------------|------------------------|------------------------------|
| Guangdong Xinghua Health Drink Company Limited.                                   | 2008         | 53.00%                 | 39,644,000.00                |
| Guangdong Xingqun Trading Development Company Limited.                            | N/A          | 51.00%                 | 751,427.00                   |
| Nanhai Southern Packing Company Limited   | 2011         | 21.42%                 | 30,000,000.00                |
| Guangzhou Zhongfu Pharmaceutical company Limited                                  | N/A          | 50.00%                 | 400,000.00                   |
| Indonesia Sanyou Industrial Company Limited                                       | 2014         | 50.00%                 | 1,420,757.64                 |
| Guangzhou Zhongsheng Medical Factory Taihe Substation                             | N/A          | 50.00%                 | 1,000,000.00                 |
| Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. | 2008         | 90.00%                 | 11,500,000.00                |
| Ming Tai Industrial (Thailand) Company Limited                                    | 2007         | 40.00%                 | 516,930.33                   |
| Jihua Medical Appliance Company Limited   | N/A          | 30.00%                 | 1,500,000.00                 |
| Guangzhou Baidi Bio-medicine Co., Ltd.  | N/A          | 82.00%                 | 16,400,000.00                |
| Shanghai Jiuhe Tang Chinese Medicine Company Limited                              | 2007         | 20.52%                 | 615,000.00                   |
| Chinese Medical Trading Association Co. Ltd.                                      | N/A          | 10.00%                 | 400,000.00                   |
| Qixing Mazhong Pharmaceutical Co., Ltd.   | 2005         | 40.00%                 | 362,826.38                   |
| Guangzhou Medicine Company Bei Jing Lu Medicine Store                             | N/A          | 20.00%                 | 160,000.00                   |
| Holding Company of Nine Cities Eleven Factories Association                       | N/A          |                        | 50,000.00                    |
| Hang Zhou Medical Station Co. Ltd.  | N/A          | 13.47%                 | 264,000.00                   |
| Communication Bank Guangdong Branch   | N/A          |                        | 348,356.00                   |
| China Everbright Bank   | N/A          | 0.30%                  | 10,725,000.00                |
| Guangzhou Medicine Commodities Exhibition Store                                   | N/A          | 80.00%                 | 861,392.58                   |
| GETDD Yongcheng Medicine Trading Co., Ltd.  | N/A          | 24.00%                 | 480,000.00                   |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 11 Long-term equity investment (continued)

##### (2). Change of long-term equity investment in the current year are as following:

| Investee  | Closing balance       | Current fluctuation under equity method | fluctuation under Accumulated equity method | Provision           | Note |
|---|-----------------------|---|---|---------------------|------|
| Guangdong Xinghua Health Drink Company Limited.                                   | 39,057,461.19         | -1,046,190.11                           | -586,538.81                                 | 7,811,492.23        | (1)  |
| Guangdong Xingqun Trading Development Company Limited.                            | 308,462.97            | -225,478.11                             | -442,964.03                                 | 0.00                |      |
| Nanhai Southern Packing Company Limited   | 30,000,000.00         | 0.00                                    | 0.00  | 0.00                |      |
| Guangzhou Zhongfu Pharmaceutical company Limited                                  | 1,155,031.25          | 346,131.92                              | 1,728,813.99                                | 0.00                |      |
| Indonesia Sanyou Industrial Company Limited                                       | 973,076.06            | 0.00                                    | 0.00  | 512,871.18          | (2)  |
| Guangzhou Zhongsheng Medical Factory Taihe Substation                             | 785,315.05            | 0.00                                    | 0.00  | 785,315.05          | (3)  |
| Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. | 9,988,811.47          | -334,945.33                             | -1,511,188.53                               | 0.00                |      |
| Ming Tai Industrial (Thailand) Company Limited                                    | 332,719.08            | -101,438.06                             | -184,211.25                                 | 0.00                |      |
| Jihua Medical Appliance Company Limited   | 1,500,000.00          | 0.00                                    | 0.00  | 0.00                |      |
| Guangzhou Baidi Bio-medicine Co., Ltd.  | 16,400,000.00         | 0.00                                    | 0.00  | 0.00                |      |
| Shanghai Jiuhetang Chinese Medicine Company Limited                               | 615,000.00            | 0.00                                    | 0.00  | 0.00                |      |
| Chinese Medical Trading Association Co. Ltd.                                      | 400,000.00            | 0.00                                    | 0.00  | 400,000.00          | (4)  |
| Qixing Mazhong Pharmaceutical Co., Ltd.   | 354,641.21            | 0.00                                    | -8,185.17                                   | 0.00                |      |
| Guangzhou Medicine Company Bei Jing Lu Medicine Store                             | 218,399.05            | 0.00                                    | 0.00  | 0.00                |      |
| Holding Company of Nine Cities Eleven Factories Association                       | 50,000.00             | 0.00                                    | 0.00  | 0.00                |      |
| Hang Zhou Medical Station Co. Ltd.  | 264,000.00            | 0.00                                    | 0.00  | 0.00                |      |
| Communication Bank Guangdong Branch   | 348,356.00            | 0.00                                    | 0.00  | 0.00                |      |
| Everbright Bank   | 10,725,000.00         | 0.00                                    | 0.00  | 0.00                |      |
| Guangzhou Medicine Commodities Exhibition Store                                   | 861,392.58            | 861,392.58                              | 861,392.58                                  | 0.00                |      |
| GETDD Yongcheng Medicine Trading Co., Ltd.  | 920,598.64            | 1,859,039.99                            | 1,859,039.99                                | 0.00                |      |
| Consolidation variance  | 1,718,536.30          | 0.00                                    | 0.00  | 0.00                | (5)  |
|   | <u>116,976,800.85</u> | <u>1,358,512.88</u>                     | <u>1,716,158.77</u>                         | <u>9,509,678.46</u> |      |

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

**VI. Notes to Consolidated Financial Statements (continued)**

**11 Long-term equity investment (continued)**

**(2). Change of long-term equity investment in the current year are as following:  
(continued)**

- Note 1: As Guangdong Xinghua Health Drink Company Limited sustained loss for four years, the Group has made a provision at 20% of book value of this investment based the investee's financial situation.
- Note 2: As the Group can not obtain the financial materials from Indonesia Sanyou Industrial Company Limited since the year 1997, and can not control the present situation of the investee, provision is made for this investment.
- Note 3: Guangzhou Zhongsheng Medical Factory Taihe Factory sustained significant loss. The liquidation of the factory in 2001 had not yet been completed at year-end. Based on the conservatism principle, a provision at the full amount is made.
- Note 4: Since Chinese Medical Trading Association Co. Ltd. is facing severe operational difficulties, the company is about to quit this investment.
- Note 5: The consolidation variance of Rmb1,718,536.30 represents the remaining value after amortization of variance between the payment, which is paid by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. in October 2000 to buy 32% share of Guangzhou Pangaoshou Natural Health product Company Limited, and the share of net assets acquired. The share of Guangzhou Pangaoshou Natural Health product Company Limited held by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. increased from 43% to 75% accordingly. The equity investment difference, whose initial amount is Rmb 2,090,885.94, is amortized over the investment period of 13 years commencing from November 1999 as stated in the investment contract. Amortization in the current year is Rmb171,853.68, and the accumulated amortization is Rmb372,349.64.

**12 Fixed assets and accumulated depreciation**

| Cost                     | Beginning balance     | Addition              | Disposal             | Closing balance         | Provision            |
|--------------------------|-----------------------|-----------------------|----------------------|-------------------------|----------------------|
| Building                 | 486,326,616.42        | 96,081,449.76         | 6,893,499.20         | 575,514,566.98          | 10,181,008.23        |
| Machinery                | 368,029,487.99        | 61,721,326.94         | 11,075,309.40        | 418,675,505.53          | 14,247,509.84        |
| Transportation Vehicle   | 78,367,030.62         | 5,806,897.30          | 2,984,170.42         | 81,189,757.50           | 193,886.79           |
| Electronic equipment     | 13,492,931.51         | 1,655,983.14          | 95,317.00            | 14,426,582.15           | 1,870.66             |
| Office equipment         | 27,732,332.23         | 3,553,862.75          | 680,143.00           | 30,606,051.98           | 129,520.14           |
|                          | <u>973,948,398.77</u> | <u>168,819,519.89</u> | <u>21,728,439.02</u> | <u>1,120,412,464.14</u> | <u>24,753,795.66</u> |
| Accumulated depreciation | Beginning balance     | Addition              | Disposal             | Closing balance         |                      |
| Building                 | 94,617,520.32         | 12,888,981.18         | 50,987.53            | 107,455,513.97          |                      |
| Machinery                | 178,173,236.05        | 42,594,187.29         | 7,430,265.12         | 213,337,158.22          |                      |
| Transportation Vehicle   | 36,915,638.27         | 8,969,765.74          | 2,201,245.78         | 43,684,158.23           |                      |
| Electronic equipment     | 6,831,347.02          | 1,221,925.42          | 92,301.21            | 7,960,971.23            |                      |
| Office equipment         | 13,973,083.84         | 1,822,190.20          | 557,184.36           | 15,238,089.68           |                      |
|                          | <u>330,510,825.50</u> | <u>67,497,049.83</u>  | <u>10,331,984.00</u> | <u>387,675,891.33</u>   |                      |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 12 Fixed assets and accumulated depreciation (continued)

- (1) During the year, the original cost of construction work in progress completed and transferred to fixed assets was amounting to Rmb 120,765,064.56.
- (2) As at 31 December 2001, the Company has pledged its fixed assets with net book value of Rmb137,606,000.00 (2000: Rmb171,738,000.00) as security for its bank loans.
- (3) At the year-end, the Group provided a provision of Rmb24,753,795.66 for the difference of the fixed assets whose recoverable amount are lower than the book value owing to their outdated technology, damage or idleness.

#### 13. Construction in progress

##### (1). Details of construction in progress are as follows:

| Project  | Budget         | Financing source                  | % of fund used to budget |
|--|----------------|-----------------------------------|--------------------------|
| Relocation of Guangzhou Xingqun<br>Pharmaceutical Company                                      | 147,040,000.00 | Working Capital and loan          | 74.46%                   |
| Zhong Yi Office Building in<br>Times Square  | 29,049,300.00  | Working capital                   | 1.59%                    |
| Zhong Yi relocation of Panyu workshop  |                | Working capital                   | —                        |
| Zhong Yi dust cleaning project   |                | Working capital                   | —                        |
| Zhong Yi relocation of Panyu workshop  | 197,030,000.00 | Working Capital and loan          | 5.72%                    |
| Relocation and expansion of Chenliji factory<br>Chinese medicine absorbing<br>base of Chenliji | 29,000,000.00  | Working capital                   | 4.08%                    |
| Chenliji product technical alteration  | 11,650,000.00  | Working capital                   | 38.69%                   |
| Chenliji product show room   | 4,000,000.00   | Working capital                   | 0.38%                    |
| Jingxiutang Prepayment for equipment   |                | Working capital                   | —                        |
| Jingxiutang Songgang base  |                | Loan                              | —                        |
| Jingxiutang GMP upgrade project  | 30,300,000.00  | Loan                              | 0.17%                    |
| Jingxiutang Anbike equipment installed   |                | Working capital                   | —                        |
| Jingxiutang suppository production line  | 1,100,000.00   | Working capital                   | 77.21%                   |
| Jingxiutang Zhweifengtouguan production line   | 1,200,000.00   | Working capital                   | 80.69%                   |
| Pangaoshou equipment installed   | 821,000.00     | Working capital                   | —                        |
| Pangaoshou water supply project  | 64,209.00      | Working capital                   | —                        |
| Pangaoshou office in Fuqian Building   | 7,707,542.02   | Working capital                   | 1.04%                    |
| Yangcheng construction materials   |                | Working capital                   | —                        |
| Yangcheng Dongmen alteration   |                | Working capital                   | —                        |
| Alteration of Yangcheng materials warehouse  | 2,000,000.00   | Working capital and stock capital | 30.00%                   |
| Yangcheng pre-treatment technical alteration   | 2,850,000.00   | Working capital and stock capital | 5.96%                    |
| Yangcheng pill workshop  | 11,000,000.00  | Working capital and stock capital | 38.88%                   |
| Alteration of Yangcheng central<br>checking room   | 2,000,000.00   | Working capital and stock capital | 34.96%                   |
| Yancheng self— made packing machine  |                | Working capital                   | —                        |
| Jianmin chain store power room   | 262,356.30     | Working capital                   | —                        |
| Logistics in Huangjinwei warehouse of<br>Guangzhou Pharmaceutical Corporation                  | 27,980,000.00  | Stock capital                     | 2.40%                    |
| Suikang Building of Guangzhou<br>Pharmaceutical Corporation                                    | 39,239,480.00  | Stock capital                     | 80.87%                   |
| Tangjiangcun project of Guangzhou<br>Pharmaceutical Corporation                                | 12,325,000.00  | Working capital and loan          | —                        |
| Caizhiling store in Qiancheng Garden   | 1,745,489.00   | Working capital                   | —                        |
| Caizhiling store in Jiahong Garden   | 2,101,710.00   | Working capital                   | —                        |
| Caizhiling store in Wanfeng Garden   | 2,300,000.00   | Working capital                   | 52.20%                   |
| Caizhiling store in Huayou Building  | 3,116,750.00   | Working capital                   | —                        |
| Caizhiling store in Yangguang Garden   | 1,216,380.00   | Working capital                   | —                        |
| Guangzhou Chinese medicine Corporation<br>WNSI boiler  | 180,000.00     | Working capital                   | 14.22%                   |

## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 13. Construction in progress (continued)

##### (2). Changes in construction work in progress in the current year are as following:

| Project   | Beginning<br>balance  | Addition              | Transferred<br>to fixed asset | Other<br>reduction  | Closing<br>balance    |
|---|-----------------------|-----------------------|-------------------------------|---------------------|-----------------------|
| Relocation of Guangzhou Xingqun<br>Pharmaceutical Company                     | 89,848,436.39         | 23,514,608.50         | 3,648,142.01                  | 223,430.51          | 109,491,472.37        |
| Zhong Yi Office Building in Times Square                                      | 32,433,214.79         | 134,604.79            | 32,105,379.58                 | 0.00                | 462,440.00            |
| Zhong Yi relocation of Panyu workshop   | 0.00                  | 72,747.00             | 0.00                          | 72,747.00           | 0.00                  |
| Zhong Yi dust cleaning project  | 80,000.00             | 0.00                  | 0.00                          | 0.00                | 80,000.00             |
| Zhong Yi relocation of Yunpu workshop   | 0.00                  | 11,271,267.86         | 0.00                          | 0.00                | 11,271,267.86         |
| Relocation and expansion of<br>Chenlijii factory                              | 33,449,400.74         | 2,370,984.12          | 34,575,278.85                 | 62,465.40           | 1,182,640.61          |
| Chinese medicine absorbing<br>base of Cheliji                                 | 7,692.00              | 0.00                  | 0.00                          | 0.00                | 7,692.00              |
| Chenlijii product technical alteration  | 0.00                  | 4,507,543.08          | 0.00                          | 0.00                | 4,507,543.08          |
| Chenlijii product show room   | 0.00                  | 15,000.00             | 0.00                          | 0.00                | 15,000.00             |
| Jingxiutang equipment   | 1,097,153.18          | 7,291,339.78          | 6,399,656.78                  | 45,858.90           | 1,942,977.28          |
| Jingxiutang Songgang base   | 15,139,223.90         | 0.00                  | 3,813,252.69                  | 0.00                | 11,325,971.21         |
| Jingxiutang GMP upgrade project   | 9,038,246.12          | 7,821,508.25          | 16,423,896.12                 | 384,458.25          | 51,400.00             |
| Jingxiutang Anbike equipment installed  | 1,089,803.00          | 0.00                  | 0.00                          | 1,039,803.00        | 50,000.00             |
| Jingxiutang suppository production line                                       | 0.00                  | 849,357.50            | 0.00                          | 0.00                | 849,357.50            |
| Jingxiutang Zhufengtouguan<br>production line                                 | 0.00                  | 968,300.00            | 0.00                          | 0.00                | 968,300.00            |
| Pangaoshou equipment installed  | 99,141.00             | 721,859.00            | 821,000.00                    | 0.00                | 0.00                  |
| Pangaoshou water supply project   | 0.00                  | 64,209.00             | 64,209.00                     | 0.00                | 0.00                  |
| Pangaoshou office in Fuqian Building  | 7,660,000.00          | 127,542.02            | 7,707,542.02                  | 0.00                | 80,000.00             |
| Yangcheng construction materials  | 19,998.95             | 0.00                  | 0.00                          | 19,998.95           | 0.00                  |
| Yangcheng Dongmen alteration  | 199,304.06            | 0.00                  | 0.00                          | 199,304.06          | 0.00                  |
| Alteration of Yangcheng<br>materials warehouse                                | 0.00                  | 600,000.00            | 0.00                          | 0.00                | 600,000.00            |
| Yangcheng pre-treatment<br>technical alteration                               | 0.00                  | 170,000.00            | 0.00                          | 0.00                | 170,000.00            |
| Yangcheng pill workshop   | 0.00                  | 7,465,310.00          | 3,188,310.00                  | 0.00                | 4,277,000.00          |
| Alteration of Yangcheng central<br>checking room                              | 0.00                  | 1,000,907.00          | 299,979.00                    | 1,808.00            | 699,120.00            |
| Yangcheng self-made packing machine   | 0.00                  | 248,259.35            | 0.00                          | 0.00                | 248,259.35            |
| Jianmin chain store power room  | 0.00                  | 270,659.91            | 0.00                          | 0.00                | 270,659.91            |
| Logistics in Huangjinwei warehouse of<br>Guangzhou Pharmaceutical Corporation | 0.00                  | 672,232.64            | 0.00                          | 0.00                | 672,232.64            |
| Suikang Building of Guangzhou<br>Pharmaceutical Corporation                   | 0.00                  | 31,700,000.00         | 0.00                          | 0.00                | 31,700,000.00         |
| Tangjiangcun project of Guangzhou<br>Pharmaceutical Corporation               | 11,857,521.27         | 1,024,771.58          | 12,882,292.85                 | 0.00                | 0.00                  |
| Caizhiling store in Qiaocheng Garden  | 0.00                  | 1,810,946.00          | 0.00                          | 0.00                | 1,810,946.00          |
| Caizhiling store in Jiahong Garden  | 2,042,862.50          | 136,610.50            | 0.00                          | 0.00                | 2,179,473.00          |
| Caizhiling store in Wanfeng Garden  | 0.00                  | 1,200,600.00          | 0.00                          | 0.00                | 1,200,600.00          |
| Caizhiling store in Huayou Building   | 3,010,000.00          | 0.00                  | 3,010,000.00                  | 0.00                | 0.00                  |
| Caizhiling store in Yangguang Garden  | 1,266,205.00          | 0.00                  | 1,266,205.00                  | 0.00                | 0.00                  |
| Guangzhou Chinese medicine<br>Corporation WNSI boiler                         | 0.00                  | 25,600.00             | 0.00                          | 0.00                | 25,600.00             |
|   | <u>208,338,202.90</u> | <u>106,056,767.88</u> | <u>126,205,143.90</u>         | <u>2,049,874.07</u> | <u>186,139,952.81</u> |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 13. Construction in progress

##### (3). Provisions for value impairment at the year end are listed below:

|                           |          | Closing<br>balance   | Provision            |
|---------------------------|----------|----------------------|----------------------|
| Jingxiutang Songgang base | (Note 1) | 11,325,971.21        | 11,325,971.21        |
| Jingxiutang equipment     | (Note 2) | 1,942,977.28         | 602,504.28           |
|                           |          | <u>13,268,948.49</u> | <u>11,928,475.49</u> |

Note 1: Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd., a subsidiary of the Group, has signed a contract to transfer the land use right of Songgang Base, and has provided provision for the difference between the transfer price and the cost.

Note 2: The Group has provided provision for the idle equipment to be installed for the difference between the recoverable amount and the book value.

##### (4). Capitalized interest expense included in the construction work in progress are as following:

| Project   | Beginning<br>balance | Addition            | Transferred to<br>fixed asset | Other<br>reduction | Closing<br>balance   |
|---|----------------------|---------------------|-------------------------------|--------------------|----------------------|
| Relocation of Guangzhou<br>Xingqun Pharmaceutical Company | 12,662,129.22        | 1,290,630.00        | 0.00                          | 0.00               | 13,952,759.22        |
| Jingxiutang equipment                                     | 387,541.18           | 0.00                | 0.00                          | 0.00               | 387,541.18           |
| Jingxiutang Songgang base                                 | 13,045,242.69        | 0.00                | 1,719,271.48                  | 0.00               | 11,325,971.21        |
| Jingxiutang GMP upgrade project                           | 4,194,761.75         | 0.00                | 4,194,761.75                  | 0.00               | 0.00                 |
| Jingxiutang Anbike equipment installed                    | 199,050.00           | 0.00                | 0.00                          | 199,050.00         | 0.00                 |
|   | <u>30,488,724.84</u> | <u>1,290,630.00</u> | <u>5,914,033.23</u>           | <u>199,050.00</u>  | <u>25,666,271.61</u> |

## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 14 Intangible assets

##### (1). Details of intangible assets are as following:

| Items   | Acquisition method  | Cost                  | Provision           | Remaining amortization period<br>(No. of month) |
|---|---------------------|-----------------------|---------------------|---|
| Land use right of Nanzhou Road factory                                  | Purchase            | 4,301,046.00          | 0.00                | 528   |
| Land use right of Renmin Road factory                                   | Purchase            | 2,686,602.00          | 0.00                | 528   |
| Land use right of No.34 of Guanlv Road                                  | Purchase            | 40,873.95             | 0.00                | 492   |
| Land use right of No.19-29 of Ningxiheng Street                         | Purchase            | 1,600,547.00          | 0.00                | 498   |
| Land use right of Conggui Road  | Purchase            | 245,477.00            | 0.00                | 552   |
| Land use right of No. 77 of Shanmulan                                   | Purchase            | 199,200.00            | 0.00                | 581   |
| Land use right of No. 32 of Duobao Road<br>Changhua New Street          | Purchase            | 1,290,480.65          | 0.00                | 223   |
| Land use right of No. 194 of Beijing Road                               | Purchase            | 2,362,581.08          | 0.00                | 557   |
| Land use right of No. 1688 of Southern<br>Guangzhou Avenue              | Purchase            | 27,006,173.92         | 0.00                | 548   |
| Land use right of Songgang Factory                                      | Purchase            | 20,417,970.00         | 8,903,370.66        | 504   |
| Land use right of Nanhai Huangqi  | Purchase            | 1,602,973.34          | 0.00                | 493   |
| Land use right of Panyu Dongsha Development Distric                     | Purchase            | 15,947,019.00         | 0.00                | 528   |
| Land use right of Guangzhou Baiyun District<br>Jiangcun factory         | Purchase            | 3,463,092.00          | 0.00                | 546   |
| Land use right of Shi Er Pu New Street                                  | Purchase            | 3,509,041.00          | 0.00                | 427   |
| Land use right of He Ping West Road                                     | Purchase            | 1,535,744.00          | 0.00                | 427   |
| Land use right of Huang Jin Wei   | Purchase            | 1,051,697.00          | 0.00                | 427   |
| Land use right of No.103 of Da Tong Road                                | Revaluation surplus | 17,928,863.00         | 0.00                | 382   |
| Land use right of No.328 in Bei Jing Road                               | Purchase            | 1,306,988.00          | 0.00                | 126   |
| Land use right of No.265 Da Xin Street                                  | Purchase            | 330,153.00            | 0.00                | 540   |
| Land use right of A area of Xin Zhou Warehouse                          | Purchase            | 1,096,704.00          | 0.00                | 526   |
| Land use right of B area of Xin Zhou Warehouse                          | Purchase            | 2,676,141.00          | 480,700.24          | 527   |
| Land use right of Sai Ba Kou Warehouse                                  | Purchase            | 402,518.00            | 0.00                | 526   |
| Land use right of Chang An Warehouse                                    | Purchase            | 114,675.00            | 0.00                | 468   |
| Land use right of Jiu Fo Warehouse                                      | Purchase            | 65,136.00             | 0.00                | 411   |
| Land use right of No.85 of Shang Jiu Road                               | Purchase            | 4,484,025.91          | 0.00                | 468   |
| Land use right of No.26 of Hong Chang Street                            | Purchase            | 309,046.00            | 0.00                | 526   |
| Land use right of No.20 of Bao Hua Bei Road                             | Purchase            | 163,591.00            | 0.00                | 411   |
| Land use right of No.44 of Bing Jiang Xi Road                           | Purchase            | 577,366.00            | 0.00                | 468   |
| Land use right of No.1 of Shan Yuan 3rd Street                          | Purchase            | 37,120.00             | 0.00                | 684   |
| Land use right of No.22 of Guang Zhi Road                               | Purchase            | 109,032.00            | 0.00                | 684   |
| Land use right of No.29 of Tong Fu<br>Zhong Long Dao Road               | Purchase            | 27,045.00             | 0.00                | 684   |
| Land use right of No.12 of Fangcun Sai Ba Road                          | Purchase            | 1,764,522.90          | 0.00                | 545   |
| Land use right of No.33 of Chi Gang Zhong Road<br>Chi Gang North Street | Purchase            | 1,755,288.00          | 0.00                | 564   |
| Land use right of Panyu Dongsheng Factory                               | Purchase            | 2,816,724.60          | 0.00                | 504   |
| Medicine recipe and techniques  | Investment accepted | 338,640.00            | 0.00                | 60  |
| Proprietary technology of Luoxuanzao                                    | Investment accepted | 499,800.00            | 0.00                | 96  |
|   |                     | <u>124,063,897.35</u> | <u>9,384,070.90</u> |   |

As the transfer value is lower than the book amount, the Group provides provision for the difference.



# NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

## VI. Notes to Consolidated Financial Statements (continued)

### 14 Intangible assets (continued)

#### (2). Changes in Intangible Assets during the current year are as below:

| Items  | Beginning balance     | Addition            | Amortization        | Accumulated amortization | Closing balance       |
|--|-----------------------|---------------------|---------------------|--------------------------|-----------------------|
| Land use right of Nanzhou Road factory                               | 4,052,018.99          | 0.00                | 88,385.42           | 337,412.43               | 3,963,633.57          |
| Land use right of Renmin Road factory                                | 2,475,242.02          | 0.00                | 54,828.60           | 266,188.58               | 2,420,413.42          |
| Land use right of No.34 of Guanlv Road                               | 37,311.89             | 0.00                | 890.52              | 4,452.58                 | 36,421.37             |
| Land use right of No.19-29 of Ningxiheng Street                      | 1,460,163.74          | 0.00                | 34,094.51           | 174,477.77               | 1,426,069.23          |
| Land use right of Conggui Road                                       | 230,748.38            | 0.00                | 4,909.53            | 19,638.15                | 225,838.85            |
| Land use right of No. 77 of Shanmulan                                | 196,876.00            | 0.00                | 3,984.00            | 6,308.00                 | 192,892.00            |
| Land use right of No. 32 of Duobao Road Changhua New Street          | 987,788.00            | 227,492.65          | 51,498.00           | 126,698.00               | 1,163,782.65          |
| Land use right of No. 194 of Beijing Road                            | 2,245,652.01          | 0.00                | 47,251.62           | 164,180.69               | 2,198,400.39          |
| Land use right of No. 1688 of Southern Guangzhou Avenue              | 25,205,762.32         | 0.00                | 540,123.48          | 2,340,535.08             | 24,665,638.84         |
| Land use right of Songgang Factory                                   | 19,378,566.46         | 0.00                | 341,096.92          | 1,380,500.46             | 19,037,469.54         |
| Land use right of Nanhai Huangqi                                     | 0.00                  | 1,344,734.33        | 27,624.57           | 27,624.57                | 1,317,109.76          |
| Land use right of Panyu Dongsha Development Distric                  | 14,689,926.68         | 0.00                | 319,121.68          | 1,576,214.00             | 14,370,805.00         |
| Land use right of Guangzhou Baiyun District Jiangcun factory         | 3,295,721.61          | 0.00                | 70,875.72           | 238,246.11               | 3,224,845.89          |
| Land use right of Shi Er Pu New Street                               | 3,469,524.80          | 0.00                | 94,839.05           | 134,355.25               | 3,374,685.75          |
| Land use right of He Ping West Road                                  | 1,518,449.61          | 0.00                | 41,506.57           | 58,800.96                | 1,476,943.04          |
| Land use right of Huang Jin Wei                                      | 1,039,853.59          | 0.00                | 28,424.32           | 40,267.73                | 1,011,429.27          |
| Land use right of No.103 of Da Tong Road                             | 16,277,954.86         | 0.00                | 495,272.30          | 2,146,180.44             | 15,782,682.56         |
| Land use right of No.328 in Bei Jing Road                            | 95,053.80             | 1,176,289.00        | 105,945.08          | 141,590.28               | 1,165,397.72          |
| Land use right of No.265 Da Xin Street                               | 303,740.76            | 0.00                | 6,603.06            | 33,015.30                | 297,137.70            |
| Land use right of A area of Xin Zhou Warehouse                       | 982,662.80            | 0.00                | 21,934.08           | 135,975.28               | 960,728.72            |
| Land use right of B area of Xin Zhou Warehouse                       | 2,403,501.22          | 0.00                | 53,522.88           | 326,162.66               | 2,349,978.34          |
| Land use right of Sai Ba Kou Warehouse                               | 360,662.12            | 0.00                | 8,050.32            | 49,906.20                | 352,611.80            |
| Land use right of Chang An Warehouse                                 | 101,986.01            | 0.00                | 2,548.32            | 15,237.31                | 99,437.69             |
| Land use right of Jiu Fo Warehouse                                   | 57,385.77             | 0.00                | 1,628.40            | 9,378.63                 | 55,757.37             |
| Land use right of No.85 of Shang Jiu Road                            | 3,557,893.98          | 106,325.41          | 195,826.88          | 1,015,633.40             | 3,468,392.51          |
| Land use right of No.26 of Hong Chang Street                         | 276,909.61            | 0.00                | 6,180.96            | 38,317.35                | 270,728.65            |
| Land use right of No.20 of Bao Hua Bei Road                          | 144,126.22            | 0.00                | 4,089.72            | 23,554.50                | 140,036.50            |
| Land use right of No.44 of Bing Jiang Xi Road                        | 513,479.48            | 0.00                | 12,830.28           | 76,716.80                | 500,649.20            |
| Land use right of No.1 of Shan Yuan 3rd Street                       | 34,336.15             | 0.00                | 541.31              | 3,325.16                 | 33,794.84             |
| Land use right of No.22 of Guang Zhi Road                            | 100,854.70            | 0.00                | 1,590.05            | 9,767.35                 | 99,264.65             |
| Land use right of No.29 of Tong Fu Zhong Long Dao Road               | 25,016.42             | 0.00                | 394.45              | 2,423.03                 | 24,621.97             |
| Land use right of No.12 of Fangcun Sai Ba Road                       | 1,639,402.75          | 0.00                | 35,290.44           | 160,410.59               | 1,604,112.31          |
| Land use right of No.33 of Chi Gang Zhong Road Chi Gang North Street | 1,685,076.48          | 0.00                | 35,106.76           | 105,318.28               | 1,649,969.72          |
| Land use right of Panyu Dongsheng Factory                            | 2,458,584.36          | 0.00                | 330,976.17          | 689,116.41               | 2,127,608.19          |
| Medicine recipe and techniques                                       | 208,440.00            | 0.00                | 26,040.00           | 156,240.00               | 182,400.00            |
| Proprietary technology of Luoxuanzao                                 | 299,880.00            | 0.00                | 49,980.00           | 250,100.00               | 249,900.00            |
|  | <u>111,810,553.59</u> | <u>2,854,841.39</u> | <u>3,143,805.97</u> | <u>12,284,269.33</u>     | <u>111,521,589.01</u> |

## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)  
For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 15. Long-term deferred expense

##### (1). Details of long-term deferred expense are as following:

| Item  | Amortization<br>period | Cost                 | Remaining<br>amortization period |
|---|------------------------|----------------------|----------------------------------|
| Improvements  | 5 years                | 18,063,037.89        | 1~5 years                        |
| Expenditure on leasehold improvement                          | 5 years                | 1,693,800.00         | 1 year                           |
| Expenditure on public utility                                 | 5 years                | 3,112,221.58         | 1~4 years                        |
| Installation of telephone                                     | 5 years                | 1,169,000.00         | 1 year                           |
| Maintenance expenditure on fixed assets                       | 5 years                | 1,185,945.54         | 4 years and 4 months             |
| Expenditure on development of electrical power                | 5 years                | 2,776,662.48         | 1 year                           |
| Expenditure on development of electrical power of new factory | 5 years                | 800,000.00           | 1 year                           |
| Revaluation surplus of H shares                               | 5 years                | 8,204,107.17         | 1 year                           |
| computer system   | 5 years                | 6,623,823.73         | 2 years and 8 months             |
| GMP project improvement                                       | 5 years                | 4,426,817.44         | 2 years and 6 months             |
| ERP system  | 5 years                | 5,263,777.66         | 1~4 years                        |
| Usage right of utilities                                      | 4 years                | 1,118,900.00         | 1 year                           |
| Medical fund for retired staff                                | 5 years                | 2,145,000.00         | 4 years and 3 months             |
| Labor insurance premium                                       | 5 years                | 350,733.73           | 4 years and 9 months             |
| Others  | 5 years                | 811,803.92           | 1~2 years                        |
|   |                        | <u>57,745,631.14</u> |                                  |

##### (2). Changes in Long-term Deferred Expense during the current year are as below:

| Item  | Beginning<br>balance | Addition             | Amortization<br>in 2001 | Accumulated<br>amortization | Closing<br>balance   |
|---|----------------------|----------------------|-------------------------|-----------------------------|----------------------|
| Improvements  | 9,737,635.15         | 9,322,937.00         | 4,675,442.41            | 3,677,908.15                | 14,385,129.74        |
| Expenditure on leasehold improvement                          | 677,520.00           | 0.00                 | 338,760.00              | 1,355,040.00                | 338,760.00           |
| Expenditure on public utility                                 | 1,325,922.45         | 0.00                 | 923,681.11              | 2,709,980.24                | 402,241.34           |
| Installation of telephone                                     | 513,490.94           | 0.00                 | 201,032.10              | 856,541.16                  | 312,458.84           |
| Maintenance expenditure on fixed assets                       | 0.00                 | 1,185,945.54         | 163,461.44              | 163,461.44                  | 1,022,484.10         |
| Expenditure on development of electrical power                | 911,200.12           | 571,862.48           | 570,366.08              | 1,863,965.96                | 912,696.52           |
| Expenditure on development of electrical power of new factory | 320,012.00           | 0.00                 | 159,996.00              | 639,984.00                  | 160,016.00           |
| Revaluation surplus of H shares                               | 2,385,485.77         | 668,971.90           | 1,485,326.98            | 6,634,976.48                | 1,569,130.69         |
| computer system   | 4,386,914.67         | 978,207.00           | 1,758,161.56            | 3,016,863.62                | 3,606,960.11         |
| GMP project improvement                                       | 1,552,808.59         | 0.00                 | 885,363.60              | 3,759,372.45                | 667,444.99           |
| ERP system  | 4,039,246.32         | 919,752.99           | 1,136,678.41            | 1,441,456.76                | 3,822,320.90         |
| Usage right of utilities                                      | 503,505.08           | 0.00                 | 251,752.44              | 867,147.36                  | 251,752.64           |
| Medical fund for retired staff                                | 0.00                 | 2,145,000.00         | 180,349.65              | 180,349.65                  | 1,964,650.35         |
| Labor insurance premium                                       | 0.00                 | 350,733.73           | 16,635.24               | 16,635.24                   | 334,098.49           |
| Others  | 252,301.56           | 0.00                 | 233,799.80              | 793,302.16                  | 18,501.76            |
|   | <u>26,606,042.65</u> | <u>16,143,410.64</u> | <u>12,980,806.82</u>    | <u>27,976,984.67</u>        | <u>29,768,646.47</u> |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 16 Short-term loans

|                  | Closing<br>balance    | Beginning<br>balance  |
|------------------|-----------------------|-----------------------|
| Loan by credit   | 6,360,000.00          | 44,640,000.00         |
| Pledged loans    | 135,500,000.00        | 250,880,000.00        |
| Guaranteed loans | 245,820,000.00        | 182,480,000.00        |
|                  | <u>387,680,000.00</u> | <u>478,000,000.00</u> |

#### 17 Notes payable

The closing balance of Rmb682,237.50 all represents bank acceptance bills.

#### 18 Accounts payable

Of the closing balance aforementioned, no current account is due to shareholders with a 5% or more shareholding.

#### 19 Advances to Suppliers

Within the closing balance aforementioned, no advance is paid to shareholders with a 5% or more shareholding.

#### 20 Dividend payable

|   | Closing<br>balance   | Reason for<br>non settlement          |
|---|----------------------|---------------------------------------|
| Guangzhou Pharmaceutical Holdings Limited | 30,780,000.00        | Dividend of 2001 will be paid in 2002 |
| Overseas public shares                    | 13,216,906.39        | Payable dividend of 2001 and 2000     |
| Domestic public shares                    | 4,680,000.00         | Dividend of 2001 will be paid in 2002 |
| Minor shareholders                        | 521,588.86           | Dividend of 2001 payable              |
|   | <u>49,198,495.25</u> |                                       |

#### 21. Taxes payable

|                       | Closing<br>balance   | Beginning<br>balance |
|-----------------------|----------------------|----------------------|
| Business tax          | 761,421.24           | 605,035.31           |
| Value added tax       | 515,997.72           | 4,557,340.34         |
| City construction tax | 875,768.73           | 1,601,096.62         |
| Enterprise income tax | 23,463,774.51        | 37,431,535.60        |
| Property tax          | 619,829.36           | 286,134.08           |
| Withholding tax       | 2,673,814.53         | 67,207.95            |
| Others                | 801.52               | 480,071.61           |
|                       | <u>28,911,407.61</u> | <u>45,028,421.51</u> |

## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 22 Other liabilities

|                       | Note | Closing balance |
|-----------------------|------|-----------------|
| Education surcharge   | (1)  | 384,341.82      |
| Flood prevention levy | (2)  | 3,055,557.47    |
| Others                |      | 3,935.97        |
|                       |      | 3,443,835.26    |

(1). Paid at 3% of the payable amount of VAT, Business tax and consumption tax.

(2). In the period from January to March 2001, flood prevention levy was paid at 1.8% of VAT, Business tax, consumption tax, while from 1 April 2001, the rate was adjusted to 1.3%.

#### 23 Other payables

##### (1) Break down of other payables closing balance

|   | Closing balance | Beginning balance |
|---|-----------------|-------------------|
| Current account due to external company | 59,932,720.41   | 65,774,157.48     |
| Technology improvement                  | 17,080,712.35   | 17,573,347.38     |
| Tax addition and government levies      | 693,121.34      | 10,472,640.28     |
| Advance from staff                      | 1,063,396.76    | 3,019,937.67      |
| Rental                                  | 200,437.54      | 1,383,846.10      |
| Staff education fund                    | 9,180,327.65    | 6,614,494.20      |
| Labor insurance                         | 4,758,192.23    | 3,651,525.52      |
| Deposit                                 | 8,383,578.82    | 10,835,316.82     |
| Labor union fund                        | 1,081,121.97    | 1,150,235.03      |
| Interest                                | 170.10          | 4,819,652.60      |
| Payables to the Holding                 | 25,704,493.22   | 62,029,905.67     |
| Staff bonus and welfare fund            | 2,226,852.13    | 1,082,341.21      |
| Centralization fund                     | 15,010,994.70   | 15,248,365.32     |
| Operator incentive fund                 | 2,350,000.00    | 0.00              |
| Others                                  | 3,598,110.39    | 22,361,573.61     |
|   | 151,264,229.61  | 226,017,338.89    |

2) Among the other payable accounts, payables to the Holding, who holds over 5% of the total share amounts to Rmb 25,704,493.22.

#### 24 Accrued expenses

|                       | Closing balance | Beginning balance |
|-----------------------|-----------------|-------------------|
| Flood project expense | 135,569.99      | 0.00              |
| Interest on loan      | 595,415.50      | 1,024,476.91      |
| Rent                  | 727,892.56      | 233,883.10        |
| Audit fee             | 3,000,000.00    | 3,080,965.00      |
| Water & electricity   | 95,000.00       | 76,091.78         |
| Others                | 0.00            | 510,456.52        |
|                       | 4,553,878.05    | 4,925,873.31      |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 25 Long-term liabilities due within 1 year

The balance of the long-term liabilities due within 1 year is Rmb 45,000,000.00, and are all pledged Rmb loans.

#### 26. Long-term loans

The closing balance of Rmb 10,000,000.00 represents loan by pledge borrowed from the Industrial & Commercial Bank of China Guangzhou 2nd Branch, which is valid from 8 August 2001 to 22 March 2003 with annual rate of 6.53%.

#### 27 Long-term payables

| Creditor  | Nature                        | Closing balance     | Beginning balance    |
|---|-------------------------------|---------------------|----------------------|
| Guangzhou Authority of state owned asset management | Dividend payable to nation    | 3,601,287.27        | 3,601,287.27         |
| Guangzhou Authority of state owned asset management | Dividend of state owned share | 2,732,919.49        | 4,635,902.05         |
| Housing fund  |                               | 99,804.49           | 3,778,181.80         |
| Others  |                               | 2,420,210.18        | 2,104,427.82         |
|   |                               | <u>8,854,221.43</u> | <u>14,119,798.94</u> |

#### 28 Share Capital

| Item                      | Beginning balance     | Addition             | Reduction   | Closing balance       |
|---------------------------|-----------------------|----------------------|-------------|-----------------------|
| Shares owned by the State | 513,000,000.00        | 0.00                 | 0.00        | 513,000,000.00        |
| Domestic public shares    | 0.00                  | 78,000,000.00        | 0.00        | 78,000,000.00         |
| Overseas public shares    | 219,900,000.00        | 0.00                 | 0.00        | 219,900,000.00        |
|                           | <u>732,900,000.00</u> | <u>78,000,000.00</u> | <u>0.00</u> | <u>810,900,000.00</u> |

Upon the approval of China Securities Regulatory Committee, the Company issued 78 million public shares in Rmb. The share capital after change Rmb810,900,000.00 has been verified by Guangzhou Yangcheng Certified Public Accountants by a capital verification report with reference of (2001)YV4526.

(Prepared by Guangzhou Pharmaceutical Company Limited)  
For the year ended 31 December 2001

**VI. Notes to Consolidated Financial Statements (continued)**

**29 Capital Surplus**

| Item  | Beginning balance     | Addition              | Reduction   | Closing balance         |
|---|-----------------------|-----------------------|-------------|-------------------------|
| Share premium   | 223,021,317.47        | 660,072,193.48        | 0.00        | 883,093,510.95          |
| Provision for donation in the form of non-cash assets | 1,621,716.80          | 0.00                  | 0.00        | 1,621,716.80            |
| Donation in the form of cash                          | 0.00                  | 0.00                  | 0.00        | 0.00                    |
| Provision for equity investment                       | 0.00                  | 0.00                  | 0.00        | 0.00                    |
| Transfer from appropriation                           | 0.00                  | 1,989,000.00          | 0.00        | 1,989,000.00            |
| Other capital surplus                                 | 220,091,815.45        | 3,287,137.81          | 0.00        | 223,378,953.26          |
| Exchange gain on foreign currency capital             | 373,893.09            | 0.00                  | 0.00        | 373,893.09              |
|   | <u>445,108,742.81</u> | <u>665,348,331.29</u> | <u>0.00</u> | <u>1,110,457,074.10</u> |

The closing balance of capital reserve is up by 149.48% when compared with the beginning balance. The reason is that A share is issued in the current year, and the share premium and interest from frozen subscription totaling up to Rmb660.072 million is recorded as capital reserve as required.

**30 Reserve fund**

| Item                          | Beginning balance     | Addition             | Reduction   | Closing balance       |
|-------------------------------|-----------------------|----------------------|-------------|-----------------------|
| Statutory reverse fund        | 91,223,903.56         | 29,178,456.32        | 0.00        | 120,402,359.88        |
| Statutory public welfare fund | 72,431,278.39         | 20,326,250.04        | 0.00        | 92,757,528.43         |
| Discretionary reserve fund    | 7,204,020.71          | 25,683,352.86        | 0.00        | 32,887,373.57         |
| Transfer from tax exemption   | 4,973,493.07          | 0.00                 | 0.00        | 4,973,493.07          |
|                               | <u>175,832,695.73</u> | <u>75,188,059.22</u> | <u>0.00</u> | <u>251,020,754.95</u> |

In accordance with resolution of the 13th meeting of the 2nd term of Directors Meeting, subsidiaries of the Company will allocate statutory reserve fund, statutory public welfare fund and Discretionary reserve fund at 10%, 10% and 20% of profit after tax separately; while the Company will allocate statutory reserve fund and statutory public welfare fund at 10% and 5% of profit after tax separately.

Closing balance of reserve fund shows an increase by 42.76% when compare with the beginning balance. The main reason is that the Group has accrued reserve fund at the current net profit.



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 31 Retained earning

- (1) Please refer to Form 3 for details of retained earning.
- (2) Please refer to Note V mentioned above for detailed policy of profit distribution.
- (3) The beginning retained earnings of 2001 is Rmb-27,437,812.57, which decreased by Rmb28,457,648.36 compared with last year's Rmb 1,019,835.79. The reasons for such difference are mainly included:
  - The Group began to adopt "Accounting Regulations for Business Enterprises" on 1 January 2001 and provided value impairment provision for fixed assets, construction work in progress as well as intangible assets retrospectively and adjusted the beginning balances of retained earnings and other related items accordingly. A decrease of Rmb28,021,923.81 was adjusted to the opening balance of retained earnings at the year 2001.
  - Correction of accounting errors brings a decrease Rmb435,724.55 to the beginning balance of retained earnings at the year 2001.
- (4) According to the resolution passed in the 13th meeting of the 2nd term of Directors Meeting, the Company proposed a total dividend of Rmb0.06 per share, based on the total number of 810,900,000 shares, the total final dividend is Rmb48,654,000.00.

#### 32 Net sales

|                               | Current<br>accumulated         | Last<br>accumulated            |
|-------------------------------|--------------------------------|--------------------------------|
| (1) Manufacturing and selling | <u>1,634,887,010.58</u>        | <u>1,295,155,090.44</u>        |
| (2) Trading                   |                                |                                |
| Wholesale                     | 3,281,569,451.40               | 2,469,537,477.45               |
| Retail                        | 357,169,891.00                 | 388,807,225.48                 |
| Import & export sales         | <u>60,402,357.20</u>           | <u>69,357,222.60</u>           |
|                               | <u>3,699,141,699.60</u>        | <u>2,927,701,925.53</u>        |
|                               | <u><b>5,334,028,710.18</b></u> | <u><b>4,222,857,015.97</b></u> |

Sales from the top five customers totals to Rmb368,857,399.90, representing 6.90% of the total net sales.

#### 33 Cost of sales

|                               | Current<br>accumulated         | Last<br>accumulated            |
|-------------------------------|--------------------------------|--------------------------------|
| (1) Manufacturing and selling | <u>793,221,277.88</u>          | <u>576,266,627.49</u>          |
| (2) Trading                   |                                |                                |
| Wholesale                     | 3,041,024,460.02               | 2,260,895,027.23               |
| Retail                        | 275,399,458.77                 | 302,765,096.79                 |
| Import & export sales         | <u>54,257,421.84</u>           | <u>61,405,110.88</u>           |
|                               | <u>3,370,681,340.63</u>        | <u>2,625,065,234.90</u>        |
|                               | <u><b>4,163,902,618.51</b></u> | <u><b>3,201,331,862.39</b></u> |

## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 34 Sales tax and levies

|                       | Current<br>accumulated | Last<br>accumulated  |
|-----------------------|------------------------|----------------------|
| Business tax          | 650,841.75             | 1,101,683.27         |
| City construction tax | 14,982,583.43          | 12,878,601.34        |
| Education surcharge   | 6,430,977.23           | 5,759,828.62         |
| Others                | 36,943.97              | 52,454.83            |
|                       | <u>22,101,346.38</u>   | <u>19,792,568.06</u> |

#### 35 Profit from other operations

|                                    | Current<br>accumulated | Last<br>accumulated  |
|------------------------------------|------------------------|----------------------|
| (1) Income from other operations   |                        |                      |
| Assets leased                      | 29,540,244.44          | 27,755,070.17        |
| Sales of material                  | 10,401,511.68          | 8,694,816.17         |
| Interest                           | 159,703.50             | 2,654,398.59         |
| Income from storage and conference | 6,077,157.55           | 6,064,761.43         |
| Proxy service                      | 0.00                   | 2,882,907.71         |
| Transference of intangible assets  | 0.00                   | 7,971.77             |
| Income from product propaganda     | 127,100.00             | 975,694.48           |
| Income from consultation           | 2,126,238.47           | 0.00                 |
| Others                             | 1,332,030.87           | 479,711.75           |
|                                    | <u>49,763,986.51</u>   | <u>49,515,332.07</u> |
| (2) Cost from other operating      | 5,817,218.17           | 4,295,856.77         |
| Assets leased                      | 5,630,376.51           | 7,609,913.89         |
| Sales of material                  | 1,915,218.30           | 649,283.13           |
| Tax & surcharge                    | 0.00                   | 143,453.57           |
| Proxy service                      | 340,515.22             | 377,162.04           |
|                                    | <u>13,703,328.20</u>   | <u>13,075,669.40</u> |
| Others                             | 36,060,658.31          | 36,439,662.67        |

#### 36 Financial expenses

|                      | Current<br>accumulated | Last<br>accumulated  |
|----------------------|------------------------|----------------------|
| Net interest expense | 6,434,722.04           | 26,641,411.46        |
| Net exchange loss    | -72,372.54             | 522,162.50           |
| Bank charges         | 591,114.56             | 751,852.08           |
| Others               | 249,536.89             | -1,898.40            |
|                      | <u>7,203,000.95</u>    | <u>27,913,527.64</u> |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VI. Notes to Consolidated Financial Statements (continued)

#### 37 Investment income

|   | Current<br>accumulated | Last<br>accumulated |
|---|------------------------|---------------------|
| Stock investment  | 3,043,350.82           | 0.00                |
| Debt investment   |                        |                     |
| Debenture investment                                    | -231,056.00            | 126,653.70          |
| Loan on behalf  | 0.00                   | 0.00                |
| Other debt investment                                   | 2,100.00               | 0.00                |
| Profit from associated<br>companies or joint ventures   | 4,054,313.69           | 3,754,186.30        |
| Net increase(decrease) of equity<br>investment interest | 1,210,640.36           | 767,047.81          |
| Provision for investment                                | -8,324,363.41          | 0.00                |
| Income from disposal on<br>equity investment            | -595,612.06            | 0.00                |
|   | <u>-840,626.60</u>     | <u>4,647,887.81</u> |

#### 38 Subsidy income

Subsidy income in the current year includes:

- (1) Special technology revolution subsidy Rmb1,300,000.00 represents the subsidy for the project of Fengshiping capsule received from Guangzhou Economy Committee, Guangzhou Science & Technology Committee, Guangzhou Planning Committee and Guangzhou Finance Bureau according to document with reference SJ(2001) No.92 "Notice on the Arrangement of Technology Revolution Subsidy Projects in Guangzhou (the First Batch)".
- (2) Science and Technology Subsidy with an amount of Rmb1,500,000.00 represents the governmental appropriation for the second developments of Qingrexiaoyanning, Huxinning and Fengshiping capsule projects from Guangzhou Science & Technology Committee and Guangzhou Finance Bureau pursuant to the document with reference SKTZ (2000) No.6 "Notice on the 4th Science & Technology Outlay in the year 2000".
- (3) Export tax refund amounts to Rmb711,998.57.

#### 39 Non-operating income

|  | Current<br>accumulated | Last<br>accumulated  |
|--|------------------------|----------------------|
| Net profit from disposal of fixed assets | 105,750.09             | 131,558.98           |
| Gain on fixed assets counting            | 0.00                   | 1,566.63             |
| Sales of obsolete material               | 15,978.46              | 100,828.37           |
| Fines                                    | 75,612.42              | 25,336.89            |
| MTR removal compensation                 | 4,652,742.36           | 10,377,543.89        |
| Creditors written off                    | 127,646.01             | 4,318,507.78         |
| Others                                   | 1,546,711.65           | 3,451,866.32         |
|  | <u>6,524,440.99</u>    | <u>18,407,208.86</u> |

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

**VI. Notes to Consolidated Financial Statements (continued)**

**40 Non-operating expenses**

|  | <b>Current<br/>accumulated</b> | Last<br>accumulated  |
|--|--------------------------------|----------------------|
| Net loss on disposal of fixed assets     | 1,167,961.43                   | 2,820,816.76         |
| Provision for value impairment of assets | 928,637.93                     | 4,797,315.61         |
| Donation                                 | 1,492,772.07                   | 67,750.00            |
| Fines                                    | 1,188,061.92                   | 695,201.53           |
| Exceptional loss                         | 0.00                           | 130,071.46           |
| Urban dyke protecting expenses           | 2,335,014.64                   | 2,506,568.09         |
| Family control bonus                     | 615,971.41                     | 566,911.38           |
| Others                                   | 3,754,605.06                   | 1,202,934.87         |
|  | <u>11,483,024.46</u>           | <u>12,787,569.70</u> |

**41 Income tax**

Income tax of the current year reaches Rmb103,209,535.64, and increases by 63.94% when compared with last year. The main reasons are:

- Total profit increases by 20.92%;
- The applicable income tax rate of last year is 15%, while in the current year, the Group pays the tax at the method "levy first, refund later", that is, the Group needs to pay the tax at the rate of 33%, and then enjoys a tax refund privilege on the part of local income (60% of the amount exceeding the rate 15%). Up to 31 December 2001, the Group only receives the tax refund for the 1st half of the year 2001.

**42 Other cash received relating to operating activities**

| <b>Item</b>   | <b>Amount</b> |
|---|---------------|
| Current accounts with the Holding   | 20,000,000.00 |
| Interest from bank deposit  | 16,037,734.04 |
| Current accounts with Guangzhou Hanfang<br>Modern Chinese Patent medicine Research &<br>Development Co., Ltd. | 2,000,000.00  |
| Appropriation from Guangzhou Finance Bureau for<br>technical alteration                                       | 1,600,000.00  |

**43 Cash paid relating to other operating activities**

| <b>Item</b>   | <b>Amount</b> |
|---|---------------|
| Advertising   | 45,882,806.43 |
| Meeting expense   | 7,966,720.85  |
| Travelling expense  | 7,507,803.03  |
| Processing fee  | 7,466,812.86  |
| Insurance premium   | 6,054,171.02  |
| Lawsuit   | 5,783,221.66  |
| Freight   | 2,731,696.58  |
| Testing expense for products                                      | 2,508,841.21  |
| Current accounts with Guangzhou Institute<br>of Medicine Industry | 2,000,000.00  |
| Return current accounts to the Holding                            | 2,000,000.00  |
| Repairing fee   | 1,527,648.73  |
| Payment to Guangzhou Air Force Hospital for cooperation           | 1,000,000.00  |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

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

#### 1 Other receivables

| Aging         | Closing balance       |             |                   | Beginning balance     |             |                   |
|---------------|-----------------------|-------------|-------------------|-----------------------|-------------|-------------------|
|               | Balance               | %           | Provision         | Balance               | %           | Provision         |
| Within 1 year | 154,365,790.44        | 45%         | 0.00              | 94,770,586.57         | 39%         | 0.00              |
| 1 ~ 2 years   | 45,995,685.86         | 14%         | 0.00              | 53,504,040.73         | 22%         | 150,613.06        |
| 2 ~3 years    | 52,974,298.49         | 16%         | 0.00              | 92,480,525.64         | 39%         | 0.00              |
| 3 ~4 years    | 86,924,483.95         | 25%         | 251,021.77        | 0.00                  | 0%          | 0.00              |
|               | <b>340,260,258.74</b> | <b>100%</b> | <b>251,021.77</b> | <b>240,755,152.94</b> | <b>100%</b> | <b>150,613.06</b> |

Including amount Rmb6,456,158.91 due from the Holding.

#### 2 Long-term investments

| Name of investee  | Original investment     | % equity held | Increase (decrease) of the equity | Closing balance         |
|---|-------------------------|---------------|-----------------------------------|-------------------------|
| Guangzhou Xing Qun Pharmaceutical Co., Ltd.                                       | 125,322,318.71          | 88.99%        | 32,418,335.34                     | 157,740,654.05          |
| Kwang Chow First Chinese Medicine Factory   | 156,209,321.79          | 90.36%        | 68,056,985.83                     | 224,266,307.62          |
| Guangzhou Chen Li Ji Chinese Medicine Factory                                     | 94,465,344.66           | 100.00%       | 73,425,533.14                     | 167,890,877.80          |
| Guangzhou Qi Xing Pharmaceutical Factory  | 126,775,482.62          | 100.00%       | 19,349,150.40                     | 146,124,633.02          |
| Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.                                  | 101,489,814.94          | 88.40%        | (25,637,477.09)                   | 75,852,337.85           |
| Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.                                   | 144,298,132.51          | 87.77%        | 9,588,368.09                      | 153,886,500.60          |
| Guangzhou Yang Cheng Pharmaceutical Co., Ltd.                                     | 102,035,124.44          | 92.48%        | 13,441,495.81                     | 115,476,620.25          |
| Guangzhou Pharmaceutical Corporation  | 225,489,155.53          | 90.09%        | 71,536,047.10                     | 297,025,202.63          |
| Guangzhou Chinese Medicine Corporation  | 69,051,978.34           | 100.00%       | 17,181,180.15                     | 86,233,158.49           |
| Guangzhou Pharmaceutical Import & Export Corporation                              | 17,957,328.73           | 100.00%       | 481,858.30                        | 18,439,187.03           |
| Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd. | 10,350,000.00           | 90.00%        | (361,188.52)                      | 9,988,811.48            |
| Nanhai Nanfang Packing Company Limited  | 30,000,000.00           | 21.42%        | 0.00                              | 30,000,000.00           |
| Guangzhou Baidi Bio-medicine Co., Ltd.  | 16,400,000.00           | 82.00%        | 0.00                              | 16,400,000.00           |
| Jihua Pharmaceutical Apparatus Company Limited                                    | 1,500,000.00            | 30.00%        | 0.00                              | 1,500,000.00            |
| Everbright Bank   | 10,725,000.00           | 0.30%         | 0.00                              | 10,725,000.00           |
| Total   | <b>1,232,069,002.27</b> |               | <b>279,480,288.55</b>             | <b>1,511,549,290.82</b> |

#### 3 Investment income

|                             | Current accumulated   | Last accumulated      |
|-----------------------------|-----------------------|-----------------------|
| Stock investment            | 3,157,607.59          | 0.00                  |
| Long-term equity investment | 149,117,494.23        | 154,736,079.55        |
|                             | <b>152,275,101.82</b> | <b>154,736,079.55</b> |

(Prepared by Guangzhou Pharmaceutical Company Limited)  
For the year ended 31 December 2001

**VIII Related Party Relationships & Transactions**

**(1) Related parties with substantial control**

| Name   | Registered address   | Principle business   | Relationship with the Company | Economic nature and type                     | Legal representative |
|--|--|----------------------|-------------------------------|--|----------------------|
| Guangzhou Pharmaceutical Holdings Company Limited    | 45 Shamian North<br>Guangzhou                              | Production and sales | Holding                       | Company with limited liabilities             | Cai Zhixiang         |
| Guangzhou Xing Qun Pharmaceutical Co., Ltd.          | 252 Renmin Central<br>Road Guangzhou                       | Production and sales | Subsidiary                    | Joint stock company with limited liabilities | Li Xinghua           |
| Kwang Chow First Chinese Medicine Factory            | 77 Shanmulan<br>Road Guangzhou                             | Production and sales | Subsidiary                    | Controlled by the State                      | Mai Qijie            |
| Guangzhou Chen Li Ji Chinese Medicine Factory        | 1688 Guangzhou<br>Dadao Guangzhou                          | Production and sales | Subsidiary                    | Controlled by the State                      | Li Guoju             |
| Guangzhou Qi Xing Pharmaceutical Factory             | 33 Cigang North Street, Xingang<br>Central Road, Guangzhou | Production and sales | Subsidiary                    | Controlled by the State                      | Zhu Bohua            |
| Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.     | 179 Renmin South<br>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<br>Road, Guangzhou                   | Production and sales | Subsidiary                    | Joint stock company with limited liabilities | Liu Runfa            |
| Guangzhou Yang Cheng Pharmaceutical Co., Ltd.        | Bridge side, Jiang Villege,<br>Baiyun District, Guangzhou  | Production and sales | Subsidiary                    | Joint stock company with limited liabilities | Chen Xiangzhi        |
| Guangzhou Pharmaceutical Corporation                 | 97 Datong Road,<br>Guangzhou                               | Wholesale and retail | Subsidiary                    | Controlled by the State                      | Feng Zhansheng       |
| Guangzhou Chinese Medicine Corporation               | 140 Guangfu South<br>Road, Guangzhou                       | Wholesale and retail | Subsidiary                    | Controlled by the State                      | Shu Dezhan           |
| Guangzhou Pharmaceutical Import & Export Corporation | 59 Shamian North<br>Street, Guangzhou                      | Wholesale and retail | Subsidiary                    | Controlled by the State                      | Tu Kejin             |

**(2) Registered capital and its changes of related parties with substantial control**

| Name   | Unit: Rmb 0'000   |                          |                          |                 |
|--|-------------------|--------------------------|--------------------------|-----------------|
|  | Beginning balance | Increase during the year | Decrease during the year | Closing balance |
| Guangzhou Pharmaceutical Holdings Company Limited    | 100,770           | 0                        | 0                        | 100,770         |
| Guangzhou Xing Qun Pharmaceutical Co., Ltd.          | 5,350             | 2,367                    | 0                        | 7,717           |
| Kwang Chow First Chinese Medicine Factory            | 1,167             | 15,433                   | 0                        | 16,600          |
| Guangzhou Chen Li Ji Chinese Medicine Factory        | 752               | 8,248                    | 0                        | 9,000           |
| Guangzhou Qi Xing Pharmaceutical Factory             | 560               | 7,682                    | 0                        | 8,242           |
| Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.     | 6,210             | 2,413                    | 0                        | 8,623           |
| Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.      | 4,332             | 2,212                    | 0                        | 6,544           |
| Guangzhou Yang Cheng Pharmaceutical Co., Ltd.        | 6,189             | 4,449                    | 0                        | 10,638          |
| Guangzhou Pharmaceutical Corporation                 | 835               | 21,365                   | 0                        | 22,200          |
| Guangzhou Chinese Medicine Corporation               | 882               | 5,618                    | 0                        | 6,500           |
| Guangzhou Pharmaceutical Import & Export Corporation | 257               | 1,243                    | 0                        | 1,500           |



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VIII Related Party Relationships & Transactions (continued)

#### (3) Shareholding or equity interest held by related parties with substantial control and their changes

*Unit: Rmb 0'000*

| Name   | Beginning |       | Increase during |       | Decrease during |      | Closing |       |
|--|-----------|-------|-----------------|-------|-----------------|------|---------|-------|
|  | balance   | %     | the year        | %     | the year        | %    | balance | %     |
| Guangzhou Pharmaceutical Holdings Company Limited    | 51,300    | 70    | 0               | 0     | 0               | 6.74 | 51,300  | 63.26 |
| Guangzhou Xing Qun Pharmaceutical Co., Ltd.          | 4,500     | 84.11 | 2,367           | 4.88  | 0               | 0    | 6,867   | 88.99 |
| Kwang Chow First Chinese Medicine Factory            | 1,167     | 100   | 13,833          | -9.64 | 0               | 0    | 15,000  | 90.36 |
| Guangzhou Chen Li Ji Chinese Medicine Factory        | 752       | 100   | 8,248           | 0     | 0               | 0    | 9,000   | 100   |
| Guangzhou Qi Xing Pharmaceutical Factory             | 560       | 100   | 7,682           | 0     | 0               | 0    | 8,242   | 100   |
| Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.     | 5,210     | 83.90 | 2,413           | 4.50  | 0               | 0    | 7,623   | 88.40 |
| Guangzhou Pan Gao Shou Phamaceutical Co., Ltd.       | 3,532     | 81.53 | 2,212           | 6.25  | 0               | 0    | 5,744   | 87.78 |
| Guangzhou Yang Cheng Pharmaceutical Co., Ltd.        | 5,389     | 87.07 | 4,449           | 5.41  | 0               | 0    | 9,838   | 92.48 |
| Guangzhou Pharmaceutical Corporation                 | 835       | 100   | 19,165          | -9.91 | 0               | 0    | 20,000  | 90.09 |
| Guangzhou Chinese Medicine Corporation               | 882       | 100   | 5,618           | 0     | 0               | 0    | 6,500   | 100   |
| Guangzhou Pharmaceutical Import & Export Corporation | 257       | 100   | 1,243           | 0     | 0               | 0    | 1,500   | 100   |

#### (4) Related party transactions

##### 1. 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 Economic Development Company                             | Fellow subsidiary           |
| Guangzhou Zhongfu Medical Company Limited   | Associated company          |
| Guangdong Xinhua Health Drinks Company Limited                                    | Subsidiary                  |
| Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd. | Subsidiary                  |
| Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.            | Fellow subsidiary           |
| Guangzhou Baiyunshan Enterprise Group   | Fellow subsidiary           |
| Guangzhou Baiyunshan Pharmaceutical Factory                                       | Fellow subsidiary           |
| Guangzhou Baiyunshan Chinese Medicine Factory                                     | Fellow subsidiary           |
| Guangzhou Baiyunshan External Use Medicine Factory                                | Fellow subsidiary           |
| Baolian Development Company Limited   | Fellow subsidiary           |

## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VIII Related Party Relationships & Transactions (continued)

#### (4) Related party transactions (continued)

##### 2. Purchase of goods

| Name  | <i>Unit: Rmb '000</i>  |                     |
|---|------------------------|---------------------|
|   | Current<br>accumulated | Last<br>accumulated |
| Guangzhou Guanghua Pharmaceutical Company Limited                         | 15,027                 | 15,372              |
| Guangzhou Pharmaceutical Holdings Limited Yingbang<br>Marketing Co., Ltd. | 20,100                 | 0                   |
| Guangzhou Pharmaceutical Goods Supplying Company                          | 1,975                  | 3,040               |
| Guangzhou Qiaoguang Pharmaceutical Factory                                | 4,436                  | 4,112               |
| Guangzhou Mingxing Pharmaceutical Factory                                 | 11,439                 | 7,047               |
| Guangzhou Tianxi Pharmaceutical Company Limited                           | 5,556                  | 5,697               |
| Guangzhou Hejigong Factory  | 1,088                  | 1,378               |
| Guangzhou Sanitation Production Factory                                   | 917                    | 668                 |
| Guangdong Pharmaceutical Factory  | 0                      | 9,081               |
| Guangdong Pharmaceutical Factory  | 0                      | 1,249               |
| Guangzhou No.10 Pharmaceutical Factory                                    | 0                      | 316                 |
| Guangzhou Baiyunshan Enterprise Group                                     | 658                    | 0                   |
| Guangzhou Baiyunshan Pharmaceutical Factory                               | 1,694                  | 0                   |
| Guangzhou Baiyunshan Chinese Medicine Factory                             | 540                    | 0                   |
| Guangzhou Baiyunshan External Use Medicine Factory                        | 408                    | 0                   |
|   | <u>63,838</u>          | <u>47,960</u>       |

The above purchases are all based on the price approved by the State or using the pricing method in accordance with the regulation of the State.

##### 3. Sale of goods

| Name  | <i>Unit: Rmb '000</i>  |                     |
|---|------------------------|---------------------|
|   | Current<br>accumulated | Last<br>accumulated |
| Guangzhou Pharmaceutical Goods Supplying Company      | 3,350                  | 4,864               |
| Guangzhou Guanghua Pharmaceutical Company Limited     | 23                     | 444                 |
| Guangzhou Pharmaceutical Economic Development Company | 491                    | 0                   |
| Guangzhou Zhongfu Medical Company Limited             | 4                      | 2,051               |
| Guangzhou Pharmaceutical Holdings Limited             | 7                      | 0                   |
| Guangzhou Qiaoguang Pharmaceutical Factory            | 17,311                 | 27,995              |
| Guangzhou Mingxing Pharmaceutical Factory             | 536                    | 0                   |
| Guangzhou Tianxi Pharmaceutical Company Limited       | 12,677                 | 13,557              |
| Guangdong Pharmaceutical Factory                      | 0                      | 1,535               |
| Guangzhou Hejigong Factory                            | 24                     | 78                  |
|   | <u>34,423</u>          | <u>50,524</u>       |

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



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VIII Related Party Relationships & Transactions (continued)

#### (4) Related party transactions (continued)

4. Subsidiary of the Company - Guangzhou Pharmaceutical Corporation purchased Suikang Building in the current year from Guangzhou Pharmaceutical Goods Supplying Company, a subsidiary of the Holding. Price stated in the contract is Rmb39,239,480.00, and Guangzhou Pharmaceutical Corporation has made a prepayment of Rmb31,700,000.00.

#### 5. Receivables and payables

|  | <i>Unit: Rmb '000</i>          |                     |
|--|--------------------------------|---------------------|
|  | <b>Current<br/>accumulated</b> | Last<br>accumulated |
| <b>Receivables:</b>  |                                |                     |
| Guangzhou Guanghua Pharmaceutical Company Limited                                    | 0                              | 121                 |
| Guangzhou Zhongfu Medical Company Limited  | 2                              | 0                   |
| Guangzhou Hejigong Factory   | 0                              | 5                   |
| Guangzhou Tianxi Pharmaceutical Company Limited                                      | 1,273                          | 2,627               |
| Guangzhou Qiaoguang Pharmaceutical Factory   | 2,571                          | 3,813               |
| Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.                          | 1,027                          | 0                   |
| Guangzhou Pharmaceutical Economic Development Company                                | 19                             | 0                   |
| Guangdong Pharmaceutical Factory   | 0                              | 165                 |
| <b>Payables:</b>   |                                |                     |
| Guangzhou Qiaoguang Pharmaceutical Factory   | 718                            | 114                 |
| Guangzhou Mingxing Pharmaceutical Factory  | 88                             | 316                 |
| Guangzhou Hejigong Factory   | 91                             | 251                 |
| Guangzhou Tianxi Pharmaceutical Company Limited                                      | 1,172                          | 426                 |
| Guangzhou Pharmaceutical Goods and Supply Company                                    | 5                              | 3                   |
| Guangdong Pharmaceutical Factory   | 0                              | 157                 |
| Guangzhou Guanghua Pharmaceutical Company Limited                                    | 1,624                          | 158                 |
| Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.                          | 109                            | 0                   |
| Guangzhou Sanitation Production Factory  | 252                            | 0                   |
| Guangdong No.10 Pharmaceutical Factory   | 0                              | 16                  |
| Guangzhou Baiyunshan Enterprise Group  | 90                             | 0                   |
| Guangzhou Baiyunshan Pharmaceutical Factory  | 59                             | 0                   |
| Guangzhou Baiyunshan Chinese Medicine Factory  | 81                             | 0                   |
| Guangzhou Baiyunshan External Use Medicine Factory                                   | 67                             | 0                   |
| <b>Other receivables:</b>  |                                |                     |
| Guangzhou Pharmaceutical Holdings Company Limited                                    | 6,706                          | 2,500               |
| Guangzhou Xinhua Health Drinks Company Limited                                       | 0                              | 3,800               |
| Guangzhou Zhongfu Medical Company Limited  | 0                              | 13                  |
| Guangzhou Hanfang Modern Chinese Patent medicine<br>Research & Development Co., Ltd. | 0                              | 2,000               |
| Hong Kong Baolian Development Company Limited  | 3,002                          | 1,207               |
| Guangdong No.10 Pharmaceutical Factory   | 100                            | 0                   |
| Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.                          | 5,000                          | 0                   |
| <b>Other payables:</b>   |                                |                     |
| Guangzhou Pharmaceutical Holdings Company Limited                                    | 25,704                         | 62,030              |

(Prepared by Guangzhou Pharmaceutical Company Limited)  
For the year ended 31 December 2001

**VIII Related Party Relationships & Transactions (continued)**

**(4) Related party transactions (continued)**

**6. Provision or receipt of services**

|                               | Note | Current<br>accumulated | Unit: Rmb '000<br>Last<br>accumulated |
|-------------------------------|------|------------------------|---------------------------------------|
| Service fee on staff quarters | (1)  | 683                    | 1,938                                 |
| Welfare facilities            | (2)  | 418                    | 404                                   |
|                               |      | <u>1,101</u>           | <u>2,342</u>                          |

Note(1) Pursuant to the Accommodation Service Agreement entered into by the Company and the Holding on 1 September 1997 and supplemented by a notice dated 31 December 1997, the Holding 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 31 December 2007.

Note(2) Pursuant to the Composite Services Agreement entered into by the Company and the Holding on 1 September 1997, the Holding 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 the Holding'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.

**7. Rental**

Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and the Holding on 1 September 1997, the Holding 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 public facilities and other outgoings which are payable based on the actual consumption. The Company shall pay such rental charges of Rmb2,761,000 for the year (2000: Rmb2,719,000)

**8. License fee**

Pursuant to the Trademark License Agreement entered into by the Company and the Holding on 1 September 1997, the Holding has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by the Holding for a term of 10 years commencing on the signature date. 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 Rmb5,512,000 for the year. (2000: Rmb4,494,000).



## NOTES TO THE ACCOUNTS

(Prepared by Guangzhou Pharmaceutical Company Limited)

For the year ended 31 December 2001

### VIII Related Party Relationships & Transactions (continued)

#### (4) Related party transactions (continued)

##### 9. Prepaid rental

Pursuant to the Premises Agreement entered into by the Company and the Holding on 28 August 1998, the Holding 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 the Holding requires funds for constructing the new office building, the Company made an advance rental payment of Rmb6,000,000 to the Holding during the year. The advance rental payment shall be used by the Holding exclusively for the construction of the new office building and shall offset the rental for the premises payable to the Holding by the Company. The lease term is expected to be not less than 10 years or until the advance rental payment is fully utilized, whichever is longer.

### IX Contingent events

Up to 31 December 2001, there are no material contingent events which should be disclosed.

### X Commitments

Up to 31 December 2001, commitments of the Group are as following.

|                                       | Closing<br>balance | Unit: Rmb '000<br>Beginning<br>balance |
|---------------------------------------|--------------------|--|
| Project payables with contract signed | 76,174             | 52,153                                 |
| Rental payables with contract signed  | 61,601             | 13,720                                 |

### XI Non-adjusting events occurring after the balance sheet date

Up to reporting date, there are no material non-adjusting events which should be disclosed.

### XII Debt restructuring events

Up to 31 December 2001, there are no debt restructuring events in the Group.

### XIII Non-monetary transactions

Up to 31 December 2001, there are no non-monetary transactions in the Group.

### XIV Other Material Events

Pursuant to YSF (2000)1063 article issued by the Guangzhou Finance Bureau, in the year 2001, the listed companies in Guangzhou are levied enterprise income tax at the rate of 33% firstly, and then enjoy a tax refund privilege on the part of local income (18%\*60%). Up to 31 December 2001, the Group has received the financial refund Rmb13,015,793.54 for the enterprise income tax paid for the period from January to June 2001, and offset the income tax of 2001 as required.

The aforesaid tax policy will be effective till 31 December 2001. The Group will pay enterprise income tax at the statutory rate (i.e., 33%) from 1 January 2002.

**TO THE SHAREHOLDERS OF GUANGZHOU PHARMACEUTICAL COMPANY LIMITED**  
*(a joint stock company established in the People's Republic of China with limited liability)*

We have audited the accounts on pages 100 to 133 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

**Hong Kong, 4 April 2002**



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared in accordance with HK GAAP)

For the year ended 31 December 2001

|                                      | Note  | 2001<br>Rmb'000        | As restated<br>2000<br>Rmb'000 |
|--------------------------------------|-------|------------------------|--------------------------------|
| Turnover                             | 2     | 5,334,029              | 4,222,857                      |
| Cost of sales                        |       | <u>(4,165,306)</u>     | <u>(3,201,332)</u>             |
| Gross profit                         |       | 1,168,723              | 1,021,525                      |
| Other revenues                       | 2     | 73,734                 | 82,708                         |
| Distribution costs                   |       | (414,876)              | (367,132)                      |
| Administrative expenses              |       | (575,151)              | (481,234)                      |
| Other operating expenses             |       | <u>(7,320)</u>         | <u>(7,990)</u>                 |
| Operating profit before finance cost | 3     | 245,110                | 247,877                        |
| Finance costs                        | 4     | <u>(29,726)</u>        | <u>(39,207)</u>                |
| Operating profit                     |       | 215,384                | 208,670                        |
| Share of profits less losses of      |       |                        |                                |
| Jointly controlled entities          |       | (9,906)                | (841)                          |
| Associated companies                 |       | <u>509</u>             | <u>(3,257)</u>                 |
| Profit before taxation               |       | 205,987                | 204,572                        |
| Taxation                             | 5     | <u>(105,084)</u>       | <u>(59,745)</u>                |
| Profit after taxation                |       | 100,903                | 144,827                        |
| Minority interests                   |       | <u>(5,035)</u>         | <u>(9,577)</u>                 |
| Net profit for the year              |       | <u><u>95,868</u></u>   | <u><u>135,250</u></u>          |
| Dividends                            | 23(a) | <u><u>48,654</u></u>   | <u><u>38,985</u></u>           |
| Earnings per share                   | 7     | <u><u>Rmb0.119</u></u> | <u><u>Rmb0.185</u></u>         |

No statement of recognised gains and losses is presented as net profit for the year of Rmb95,868,000 (2000: Rmb135,250,000) shown above is the only component.

## CONSOLIDATED BALANCE SHEET

(Prepared in accordance with HK GAAP)

As at 31 December 2001

|  |             | 2001<br><i>Rmb'000</i> | As restated<br>2000<br><i>Rmb'000</i> |
|--|-------------|------------------------|---------------------------------------|
|  | <i>Note</i> |                        |                                       |
| Deferred expenditures                      | 9           | 79,463                 | 89,909                                |
| Fixed assets                               | 10          | 973,507                | 900,628                               |
| Construction in progress                   | 11          | 174,212                | 234,437                               |
| Interests in jointly controlled entities   | 13          | 29,832                 | 39,738                                |
| Interests in associated companies          | 14          | 2,912                  | 2,967                                 |
| Investment securities                      | 15          | 48,334                 | 33,003                                |
| Current assets                             |             |                        |                                       |
| Inventories                                | 17          | 833,328                | 789,098                               |
| Trade and other receivables                | 18          | 774,597                | 678,313                               |
| Trading securities and other investments   | 16          | 67,988                 | —                                     |
| Bank balances and cash                     |             | <u>893,796</u>         | <u>488,333</u>                        |
|  |             | <u>2,569,709</u>       | <u>1,955,744</u>                      |
| Current liabilities                        |             |                        |                                       |
| Trade and other payables                   | 19          | 874,250                | 929,621                               |
| Taxation payable                           |             | 28,911                 | 35,520                                |
| Current portion of long term liabilities   | 24          | 45,000                 | 34,000                                |
| Bank loans                                 | 20          | <u>387,680</u>         | <u>478,000</u>                        |
|  |             | <u>1,335,841</u>       | <u>1,477,141</u>                      |
| Net current assets                         |             | <u>1,233,868</u>       | <u>478,603</u>                        |
| Total assets less current liabilities      |             | <u>2,542,128</u>       | <u>1,779,285</u>                      |
| Financed by:                               |             |                        |                                       |
| Share capital                              | 21          | 810,900                | 732,900                               |
| Reserves                                   | 22          | 1,471,577              | 751,685                               |
| Retained earnings                          |             |                        |                                       |
| Proposed final dividend                    | 23          | 48,654                 | 24,327                                |
| Other                                      | 23          | <u>77,299</u>          | <u>89,905</u>                         |
| Shareholders' funds                        |             | 2,408,430              | 1,598,817                             |
| Minority interests                         |             | 123,698                | 115,468                               |
| Long-term liability                        | 24          | 10,000                 | 65,000                                |
| <br><b>Cai Zhixiang</b><br><i>Director</i> |             | <br><u>2,542,128</u>   | <br><u>1,779,285</u>                  |
| <br><b>Li Yimin</b><br><i>Director</i>     |             |                        |                                       |



## BALANCE SHEET

(Prepared in accordance with HK GAAP)

As at 31 December 2001

|                                       | Note | 2001<br>Rmb'000  | As restated<br>2000<br>Rmb'000 |
|---------------------------------------|------|------------------|--------------------------------|
| Deferred expenditures                 | 9    | 1,944            | 2,187                          |
| Fixed assets                          | 10   | 27,451           | 26,297                         |
| Investments in subsidiaries           | 12   | 1,395,154        | 995,118                        |
| Investment securities                 | 15   | 42,225           | 30,500                         |
| Current assets                        |      |                  |                                |
| Other receivables                     | 18   | 360,719          | 256,856                        |
| Trading securities                    | 16   | 3,052            | —                              |
| Bank balances and cash                |      | 333,583          | 128,225                        |
|                                       |      | <u>697,354</u>   | <u>385,081</u>                 |
| Current liabilities                   |      |                  |                                |
| Other payables                        | 19   | 13,292           | 49,029                         |
| Taxation payable                      |      | 317              | 67                             |
| Bank loans                            | 20   | —                | 30,000                         |
|                                       |      | <u>13,609</u>    | <u>79,096</u>                  |
| Net current assets                    |      | <u>683,745</u>   | <u>305,985</u>                 |
| Total assets less current liabilities |      | <u>2,150,519</u> | <u>1,360,087</u>               |
| Financed by:                          |      |                  |                                |
| Share capital                         | 21   | 810,900          | 732,900                        |
| Reserves                              | 22   | 1,276,171        | 602,860                        |
| Retained earnings                     |      |                  |                                |
| Proposed final dividend               | 23   | 48,654           | 24,327                         |
| Other                                 | 23   | 14,794           | —                              |
|                                       |      | <u>2,150,519</u> | <u>1,360,087</u>               |
| <b>Cai Zhixiang</b><br>Director       |      |                  |                                |
| <b>Li Yim Min</b><br>Director         |      |                  |                                |

## CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with HK GAAP)

For the year ended 31 December 2001

|   | Note  | 2001<br><b>Rmb'000</b> | 2000<br>Rmb'000  |
|---|-------|------------------------|------------------|
| Net cash inflow from operating activities                             | 25(a) | <u>160,378</u>         | <u>312,559</u>   |
| Returns on investments and servicing of finance                       |       |                        |                  |
| Interest received   |       | 22,523                 | 13,947           |
| Interest paid   |       | (30,504)               | (43,143)         |
| Income from unlisted investments                                      |       | 8,728                  | 7,025            |
| Dividends received from associated company                            |       | 392                    | —                |
| Dividends paid  |       | (24,327)               | (36,645)         |
| Dividends paid to minority shareholders in subsidiaries               | 25(b) | <u>(5,907)</u>         | <u>(6,626)</u>   |
| Net cash outflow from returns on investments and servicing of finance |       | <u>(29,095)</u>        | <u>(65,442)</u>  |
| Taxation paid - PRC enterprise income tax                             |       | <u>(110,774)</u>       | <u>(36,455)</u>  |
| Investing activities  |       |                        |                  |
| Payment for deferred expenditures                                     |       | —                      | (26,675)         |
| Purchase of fixed assets  |       | (68,857)               | (74,945)         |
| Sale of fixed assets  |       | 411                    | 7,213            |
| Payments for construction in progress                                 |       | (80,661)               | (90,725)         |
| Sale of investment securities   |       | —                      | 4,147            |
| Purchase of trading securities and other investments                  |       | (67,988)               | —                |
| Purchase of investment securities                                     |       | (15,331)               | —                |
| Purchase of a subsidiary  |       | —                      | (947)            |
| Net cash outflow from investing activities                            |       | <u>(232,426)</u>       | <u>(181,932)</u> |
| Net cash (outflow)/inflow before financing                            |       | <u>(211,917)</u>       | <u>28,730</u>    |
| Financing   | 25(b) |                        |                  |
| Issue of shares   |       | 764,400                | —                |
| Share issue expenses  |       | (26,328)               | —                |
| Capital contribution from minority interest                           |       | 13,628                 | —                |
| New loans payable   |       | 451,010                | 557,280          |
| Repayment of amounts borrowed   |       | (585,330)              | (607,203)        |
| Net cash inflow /(outflow) from financing                             |       | <u>617,380</u>         | <u>(49,923)</u>  |
| Increase/(Decrease) in cash and cash equivalents                      |       | 405,463                | (21,193)         |
| Cash and cash equivalents at 1 January                                |       | 488,333                | 509,526          |
| Cash and cash equivalents at 31 December                              |       | <u>893,796</u>         | <u>488,333</u>   |

Cash and cash equivalents as at 31 December 2001 and 31 December 2000 represent bank balances and cash as shown in the consolidated balance sheet on the respective dates.



## 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment, trading securities and other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by HKSA which are effective for accounting periods commencing on or after 1 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 29           | : Intangible assets  |
| SSAP 30           | : Business combinations  |
| SSAP 31           | : Impairment of assets   |
| SSAP 32           | : Consolidated financial statements and accounting for investments in subsidiaries |

The effect of adopting these new standards is set out in the accounting policies below.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

*(Prepared in accordance with HK GAAP)*

## **1 Principal accounting policies *(continued)***

### **(b) Group accounting *(continued)***

#### **(ii) Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

#### **(iii) Associated companies**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligation in respect of the associated company.

#### **(iv) Translation of foreign currencies**

The company and its principal subsidiaries maintain their books and records in Renminbi.

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.



## 1 Principal accounting policies (continued)

### (c) Fixed assets

#### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

#### (ii) Property, plant and equipment

Land use rights and buildings other than investment properties are stated at cost less accumulated amortisation and depreciation and accumulated impairment losses.

Amortisation of land use rights is calculated to write off their cost less accumulated impairment losses on a straight-line basis over the unexpired land use period of 20 to 50 years.

Depreciation of buildings is calculated to write off their cost less accumulated impairment losses on a straight-line basis over the unexpired land use period of 20 to 50 years or their expected useful lives to the Group, whichever is shorter, after taking into account their estimated residual value.

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis after taking into account their estimated residual value. The principal annual rates are as follows:

|                                |              |
|--------------------------------|--------------|
| Plant, machinery and equipment | 5 - 15 years |
| Motor vehicles                 | 5 - 10 years |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(Prepared in accordance with HK GAAP)

## 1 Principal accounting policies (continued)

### (c) Fixed assets (continued)

#### (iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction and property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than for investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (iv) Construction-in-progress

Construction-in-progress is stated at cost less accumulated impairment losses. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. Plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

### (d) Assets under leases

#### (i) Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.



### 1 Principal accounting policies (continued)

#### (e) Intangibles

##### (i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/ joint venture/ associated company at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5-10 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

##### (ii) Deferred staff quarters reform costs

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

(Prepared in accordance with HK GAAP)

## 1 Principal accounting policies (continued)

### (e) Intangibles (continued)

#### (iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### (iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

### (f) Investments in securities

#### (i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (ii) Trading securities and other investments

Trading securities and other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities and other investments are recognised in the profit and loss account. Profits or losses on disposal of trading securities or other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (g) Inventories

Inventories, other than production supplies, are stated at the lower of cost and net realisable value. Cost, which is generally calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Production supplies are stated at cost less provision for obsolescence.



### 1 Principal accounting policies (continued)

#### (h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investment with a maturity of three months or less from date of investment and bank overdrafts.

#### (j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (k) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

#### (l) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from provision of services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Royalty income is recognised on an accrual basis.

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

Operating lease rental income is recognised on a straight-line basis.

Promotional income from supplier is recognised when the right to receive payment is established.

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

(Prepared in accordance with HK GAAP)

## 1 Principal accounting policies (continued)

### (m) Retirement benefit costs

The Group participates in a local municipal government pension scheme whereby it is required to pay annual contributions at a rate of around 23% of the total salary, bonuses and allowances paid to the Group's staff for the year. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired staff of the Group. Contributions to this retirement scheme are charged to the profit and loss account as and when incurred.

### (n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (o) Segment reporting

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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (Note 10) and construction in progress (Note 11).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### (p) Dividends

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



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 2. Turnover, revenue and segment information

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

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

*Note:*

Rmb3,061,000 (2000: Rmb8,711,000) has been received by certain subsidiaries from local government as subsidies for technical development. According to the approval documents, the Group is required to transfer from profit after taxation an amount equal to the subsidies received to the capital reserve account (Note 22).

The Group is organised into the following business segments:

- Manufacturing of Chinese patent medicine.
- Wholesale of western pharmaceutical products, Chinese patent medicine, Chinese raw medicine and medical apparatus.
- Retail of western pharmaceutical products, Chinese patent medicine, Chinese raw medicine and medical apparatus.
- Import and export of western pharmaceutical products

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

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

## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 2. Turnover, revenue and segment information (continued)

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



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 2. Turnover, revenue and segment information (continued)

|  | Year ended 31 December 2000 |                      |                   |                                    |                        | Group<br>Rmb'000 |
|--|-----------------------------|----------------------|-------------------|------------------------------------|------------------------|------------------|
|  | Manufacturing<br>Rmb'000    | Wholesale<br>Rmb'000 | Retail<br>Rmb'000 | Import<br>and<br>export<br>Rmb'000 | Elimination<br>Rmb'000 |                  |
| Turnover                                 |                             |                      |                   |                                    |                        |                  |
| External                                 | 1,295,155                   | 2,469,538            | 388,807           | 69,357                             | —                      | 4,222,857        |
| Internal                                 | 110,330                     | 70,689               | —                 | —                                  | (181,019)              | —                |
| Total                                    | <u>1,405,485</u>            | <u>2,540,227</u>     | <u>388,807</u>    | <u>69,357</u>                      | <u>(181,019)</u>       | <u>4,222,857</u> |
| Segment results                          | <u>181,365</u>              | <u>61,042</u>        | <u>12,471</u>     | <u>942</u>                         | <u>(3,719)</u>         | 252,101          |
| Unallocated costs                        |                             |                      |                   |                                    |                        | (4,224)          |
| Operating profit                         |                             |                      |                   |                                    |                        | 247,877          |
| Finance costs                            |                             |                      |                   |                                    |                        | (39,207)         |
| Share of profits less losses of          |                             |                      |                   |                                    |                        |                  |
| Jointly controlled entities              | (841)                       | —                    | —                 | —                                  | —                      | (841)            |
| Associated companies                     | (3,257)                     | —                    | —                 | —                                  | —                      | (3,257)          |
| Profit before taxation                   |                             |                      |                   |                                    |                        | 204,572          |
| Taxation                                 |                             |                      |                   |                                    |                        | (59,745)         |
| Profit after taxation                    |                             |                      |                   |                                    |                        | 144,827          |
| Minority interests                       |                             |                      |                   |                                    |                        | (9,577)          |
| Net profit                               |                             |                      |                   |                                    |                        | <u>135,250</u>   |
| Segment assets                           | 1,564,355                   | 1,089,687            | 132,206           | 29,787                             | (28,893)               | 2,787,142        |
| Interests in jointly controlled entities | 39,738                      | —                    | —                 | —                                  | —                      | 39,738           |
| Interests in associated companies        | 2,967                       | —                    | —                 | —                                  | —                      | 2,967            |
| Unallocated assets                       |                             |                      |                   |                                    |                        | 426,579          |
| Total assets                             |                             |                      |                   |                                    |                        | <u>3,256,426</u> |
| Segment liabilities                      | 547,262                     | 864,244              | 55,735            | 21,415                             | (28,893)               | 1,459,763        |
| Unallocated liabilities                  |                             |                      |                   |                                    |                        | 106,705          |
| Total liabilities                        |                             |                      |                   |                                    |                        | <u>1,566,468</u> |
| Capital expenditure                      | 97,606                      | 58,140               | 9,830             | 94                                 | —                      | 165,670          |
| Depreciation                             | 50,877                      | 11,933               | 1,872             | 201                                | —                      | 64,883           |
| Amortisation charge                      | 7,403                       | 3,015                | —                 | 30                                 | —                      | 10,448           |

## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 3 Operating profit before finance cost

Operating profit before finance cost is stated after crediting and charging the following:

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

Note: Impairment charge included:

|                                    | <i>Rmb'000</i> |
|------------------------------------|----------------|
| Fixed assets (Note 10)             | 38,191         |
| Construction in progress (Note 11) | 11,928         |
|                                    | <u>50,119</u>  |

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

### 4 Finance costs

|  | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> |
|--|------------------------|------------------------|
| Interest on bank loans and overdrafts                  | 30,504                 | 43,143                 |
| Other incidental borrowing costs                       | 513                    | 1,281                  |
| Total borrowing costs incurred                         | <u>31,017</u>          | <u>44,424</u>          |
| Less: interest capitalised in construction in progress | <u>(1,291)</u>         | <u>(5,217)</u>         |
|  | <u>29,726</u>          | <u>39,207</u>          |

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



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 5 Taxation

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

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

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

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

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

### 6 Profit attributable to shareholders

The profit attributable to shareholder is dealt with in the accounts of the company to the extent of Rmb54,169,000 (2000: Rmb17,665,000).

### 7 Earnings per share

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

(Prepared in accordance with HK GAAP)

## 8 Directors' and senior management's emoluments

### (a) Directors', supervisors' and senior management's emoluments

The aggregate amounts of emoluments payable to directors, supervisors and senior management of the company during the year are as follows:

|   | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> |
|---|------------------------|------------------------|
| Fees  |                        |                        |
| Executive directors                             | —                      | —                      |
| Non-executive directors                         | 313                    | 210                    |
| Supervisors                                     | —                      | —                      |
| Other emoluments for executive directors        |                        |                        |
| Basic salaries, allowances and benefits in kind | 1,398                  | 569                    |
| Bonuses   | 585                    | 324                    |
| Retirement benefits                             | 41                     | 40                     |
| Other emoluments for supervisors                |                        |                        |
| Basic salaries, allowances and benefits in kind | 278                    | 201                    |
| Bonuses   | 74                     | —                      |
| Retirement benefits                             | 10                     | 10                     |
| Other emoluments for senior management          |                        |                        |
| Basic salaries, allowances and benefit in kind  | 428                    | 336                    |
| Bonuses   | 363                    | —                      |
| Retirement benefits                             | 31                     | 20                     |
|   | <u>3,521</u>           | <u>1,710</u>           |

The emoluments for each of the Company's directors (executive and non-executive), supervisors and senior management, totalling 16 individuals (2000: 16 individuals) are within the band of Rmb Nil to Rmb1,000,000 for the years ended 31 December 2001 and 31 December 2000.

No director, supervisor or senior management waived emoluments in respect of the years ended 31 December 2001 and 31 December 2000.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2000: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year are as follows:

|   | <i>Rmb'000</i> |
|---|----------------|
| Basic salaries, allowances and benefits in kind | 354            |
| Bonuses   | 1,542          |
| Retirement benefits                             | 22             |
|   | <u>1,918</u>   |

Emoluments of the five highest paid individuals presented above are all within the band of Rmb Nil to Rmb 1,000,000 for the year ended 31 December 2001.



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 9 Deferred expenditures

|                                    | Group           |                 | Company         |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                    | 2001<br>Rmb'000 | 2000<br>Rmb'000 | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
| <b>Staff quarters reform costs</b> |                 |                 |                 |                 |
| Net book value at 1 January        | 89,909          | 73,682          | 2,187           | 2,148           |
| Additions                          | -               | 26,675          | -               | 282             |
| Amortisation                       | (10,446)        | (10,448)        | (243)           | (243)           |
| Net book value at 31 December      | <u>79,463</u>   | <u>89,909</u>   | <u>1,944</u>    | <u>2,187</u>    |

### 10 Fixed assets

#### Group

|  | Investment<br>properties<br>Rmb'000 | Land use<br>rights<br>Rmb'000 | Land and<br>buildings<br>Rmb'000 | Plant,<br>machinery<br>and<br>equipment<br>Rmb'000 | Motor<br>vehicles<br>Rmb'000 | Total<br>Rmb'000 |
|--|-------------------------------------|-------------------------------|----------------------------------|--|------------------------------|------------------|
| <b>Cost or valuation</b>                             |                                     |                               |                                  |  |                              |                  |
| At 1 January 2001                                    | 8,712                               | 122,331                       | 517,122                          | 528,824  | 68,786                       | 1,245,775        |
| Additions  | —                                   | 944                           | 40,956                           | 20,920   | 6,037                        | 68,857           |
| Transfer from construction in progress               | —                                   | —                             | 92,034                           | 34,468   | 2,456                        | 128,958          |
| Disposals  | —                                   | —                             | (88)                             | (8,261)  | (3,047)                      | (11,396)         |
| <b>At 31 December 2001</b>                           | <u>8,712</u>                        | <u>123,275</u>                | <u>650,024</u>                   | <u>575,951</u>                                     | <u>74,232</u>                | <u>1,432,194</u> |
| <b>Accumulated depreciation and<br/>amortisation</b> |                                     |                               |                                  |  |                              |                  |
| At 1 January 2001                                    | —                                   | 9,879                         | 90,622                           | 207,709  | 36,937                       | 345,147          |
| Charge for the year                                  | —                                   | 2,763                         | 24,886                           | 50,689   | 7,341                        | 85,679           |
| Impairment charge (Note 3)                           | —                                   | 9,384                         | 6,777                            | 21,389   | 641                          | 38,191           |
| Disposals  | —                                   | —                             | (76)                             | (8,258)  | (1,996)                      | (10,330)         |
| <b>At 31 December 2001</b>                           | <u>—</u>                            | <u>22,026</u>                 | <u>122,209</u>                   | <u>271,529</u>                                     | <u>42,923</u>                | <u>458,687</u>   |
| <b>Net book value</b>                                |                                     |                               |                                  |  |                              |                  |
| <b>At 31 December 2001</b>                           | <u>8,712</u>                        | <u>101,249</u>                | <u>527,815</u>                   | <u>304,422</u>                                     | <u>31,309</u>                | <u>973,507</u>   |
| At 31 December 2000                                  | <u>8,712</u>                        | <u>112,452</u>                | <u>426,500</u>                   | <u>321,115</u>                                     | <u>31,849</u>                | <u>900,628</u>   |

The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:

|                   |              |                |                |                |               |                  |
|-------------------|--------------|----------------|----------------|----------------|---------------|------------------|
| At cost           | —            | 123,275        | 650,024        | 575,951        | 74,232        | 1,423,482        |
| At 2001 valuation | 8,712        | —              | —              | —              | —             | 8,712            |
|                   | <u>8,712</u> | <u>123,275</u> | <u>650,024</u> | <u>575,951</u> | <u>74,232</u> | <u>1,432,194</u> |

The analysis of the cost or valuation at 31 December 2000 of the above assets is as follows:

|                   |              |                |                |                |               |                  |
|-------------------|--------------|----------------|----------------|----------------|---------------|------------------|
| At cost           | —            | 122,331        | 517,122        | 528,824        | 68,786        | 1,237,063        |
| At 2000 valuation | 8,712        | —              | —              | —              | —             | 8,712            |
|                   | <u>8,712</u> | <u>122,331</u> | <u>517,122</u> | <u>528,824</u> | <u>68,786</u> | <u>1,245,775</u> |

## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 10 Fixed assets (continued)

#### Company

|                                 | Land and<br>buildings<br>Rmb'000 | Plant,<br>Machinery<br>and<br>Equipment<br>Rmb'000 | Motor<br>vehicles<br>Rmb'000 | Total<br>Rmb'000 |
|---------------------------------|----------------------------------|--|------------------------------|------------------|
| <b>Cost</b>                     |                                  |  |                              |                  |
| At 1 January 2001               | 23,007                           | 5,759  | 596                          | 29,362           |
| Additions                       | —                                | 3,874  | 189                          | 4,063            |
| Disposals                       | —                                | (16)   | (298)                        | (314)            |
| <b>At 31st December 2001</b>    | <b>23,007</b>                    | <b>9,617</b>                                       | <b>487</b>                   | <b>33,111</b>    |
| <b>Accumulated depreciation</b> |                                  |  |                              |                  |
| At 1 January 2001               | 1,438                            | 1,517  | 110                          | 3,065            |
| Charge for the year             | 1,400                            | 1,223  | 69                           | 2,692            |
| Disposals                       | —                                | (3)  | (94)                         | (97)             |
| <b>At 31 December 2001</b>      | <b>2,838</b>                     | <b>2,737</b>                                       | <b>85</b>                    | <b>5,660</b>     |
| <b>Net book value</b>           |                                  |  |                              |                  |
| <b>At 31 December 2001</b>      | <b>20,169</b>                    | <b>6,880</b>                                       | <b>402</b>                   | <b>27,451</b>    |
| At 31 December 2000             | 21,569                           | 4,242  | 486                          | 26,297           |

All of the Group's investment properties and buildings are located in the PRC, except for a property with a net book value of Rmb 17,957,000 (2000: Rmb18,708,000) which is located in Hong Kong and is held on a lease of over 50 years. The land use rights of the land where the Group's investment properties and buildings in the PRC are situated were granted by the State Land Administration Bureau of Guangzhou for periods of 20 to 50 years.

Investment properties have been revalued at their open market value by Mr K.K. Ip of Greater China Appraisal Limited, an independent firm of valuers, at 31 December 2001. Mr K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

At 31 December 2001, the net book value of fixed assets pledged as security for the Group's bank loans amounted to Rmb137,606,000 (2000: Rmb171,738,000).

### 11 Construction in progress

|                            | Group           |                 |
|----------------------------|-----------------|-----------------|
|                            | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
| At 1 January               | 234,437         | 175,778         |
| Additions                  | 80,661          | 90,725          |
| Transfer to fixed assets   | (128,958)       | (32,066)        |
| Impairment charge (Note 3) | (11,928)        | —               |
| <b>At 31 December</b>      | <b>174,212</b>  | <b>234,437</b>  |

Construction-in-progress included interest capitalised amounted to Rmb17,392,000 (2000: Rmb16,101,000).



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 12 Investments in subsidiaries

|                          | <b>Company</b>   |                |
|--------------------------|------------------|----------------|
|                          | <b>2001</b>      | 2000           |
|                          | <b>Rmb'000</b>   | <i>Rmb'000</i> |
| Unlisted shares, at cost | <u>1,395,154</u> | <u>995,118</u> |

The particulars of principal subsidiaries are set out in Note 28.

### 13 Interests in jointly controlled entities

Jointly controlled entities

|                     | <b>Group</b>   |                |
|---------------------|----------------|----------------|
|                     | <b>2001</b>    | 2000           |
|                     | <b>Rmb'000</b> | <i>Rmb'000</i> |
| Share of net assets | <u>29,832</u>  | <u>39,738</u>  |

The following is a list of the principal jointly controlled entities at 31 December 2001:

| <b>Name</b>                              | <b>Place of incorporation</b> | <b>Principal activities and place of operation</b>          | <b>Ownership interest</b> | <b>Percentage of Voting power</b> | <b>Profit/loss sharing</b> |
|--|-------------------------------|---|---------------------------|-----------------------------------|----------------------------|
| Guangzhou Xing Qun Trading Company Ltd.  | The PRC                       | Retailing of Chinese and Western patent medicine in the PRC | 51.0                      | 28.6                              | 42.9                       |
| Guangdong Xinhua Health Drinks Co., Ltd. | The PRC                       | Production of health care drinks in the PRC                 | 53.0                      | 42.9                              | 44.6                       |

### 14 Interests in associated companies

|                          | <b>Group</b>   |                |
|--------------------------|----------------|----------------|
|                          | <b>2001</b>    | 2000           |
|                          | <b>Rmb'000</b> | <i>Rmb'000</i> |
| Share of net assets      | <u>2,912</u>   | <u>2,967</u>   |
| Unlisted shares, at cost | <u>2,338</u>   | <u>2,338</u>   |

At 31 December 2001 the Group held shares in the following associated companies:

| <b>Name</b>                          | <b>Particulars of equity held</b> | <b>Place of establishment/ registration</b> | <b>% of equity interest</b> | <b>Principal activities</b>           |
|--------------------------------------|-----------------------------------|---|-----------------------------|---------------------------------------|
| Guangzhou Zhong Fu Medical Co., Ltd. | Registered capital: Rmb400,000    | PRC   | 50                          | Production of Chinese patent medicine |
| PT. Purusa Bhakti                    | Ordinary shares of US\$1 each     | Indonesia                                   | 43.6                        | Dormant                               |
| Ming Tai Enterprises (Thailand) Ltd. | Ordinary shares of Baht1 each     | Thailand                                    | 32.6                        | Dormant                               |

## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 15 Investment securities

|   | Group                  |                        | Company                |                        |
|---|------------------------|------------------------|------------------------|------------------------|
|   | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> |
| Unlisted shares                             | 48,334                 | 32,771                 | 42,225                 | 30,500                 |
| Unlisted government bonds<br>and debentures | —                      | 232                    | —                      | —                      |
|   | <b>48,334</b>          | <b>33,003</b>          | <b>42,225</b>          | <b>30,500</b>          |

At 31 December 2001 and 2000, all investment securities were stated at cost.

### 16 Trading securities and other investments

|                                      | Group                  |                        | Company                |                        |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                      | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> |
| Equity securities, listed in the PRC | 4,306                  | —                      | 3,052                  | —                      |
| Other investments                    | 63,682                 | —                      | —                      | —                      |
|                                      | <b>67,988</b>          | <b>—</b>               | <b>3,052</b>           | <b>—</b>               |
| Market value of listed investment    | <b>4,306</b>           | <b>—</b>               | <b>3,052</b>           | <b>—</b>               |

### 17 Inventories

|                     | Group                  |                        |
|---------------------|------------------------|------------------------|
|                     | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> |
| Raw materials       | 103,419                | 92,019                 |
| Work-in-progress    | 41,192                 | 42,573                 |
| Finished goods      | 669,042                | 640,075                |
| Production supplies | 19,675                 | 14,431                 |
|                     | <b>833,328</b>         | <b>789,098</b>         |

At 31 December 2001 and 2000, all inventories were stated at cost.

### 18 Trade and other receivables

|                                       | Group                  |                        | Company                |                        |
|---------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                       | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> | 2001<br><i>Rmb'000</i> | 2000<br><i>Rmb'000</i> |
| Trade receivables (Note a)            | 520,677                | 433,824                | —                      | —                      |
| Other receivables and prepayments     | 234,405                | 224,936                | 26,279                 | 51,100                 |
| Due from                              |                        |                        |                        |                        |
| Jointly controlled entities (Note b)  | 3,800                  | 3,800                  | —                      | —                      |
| Associated companies (Note b)         | 4,729                  | 2,790                  | —                      | —                      |
| Subsidiaries (Note b)                 | —                      | —                      | 308,594                | 173,390                |
| Fellow subsidiaries (Note b)          | 10,986                 | 12,963                 | 5,136                  | —                      |
| Dividend receivable from subsidiaries | —                      | —                      | 20,710                 | 32,366                 |
|                                       | <b>774,597</b>         | <b>678,313</b>         | <b>360,719</b>         | <b>256,856</b>         |



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 18 Trade and other receivables (continued)

- (a) Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of the trade receivables net of doubtful debt provision as at 31 December 2001 is as follows:

|                    | Group           |                 |
|--------------------|-----------------|-----------------|
|                    | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
| Within 6 months    | 480,276         | 413,173         |
| 6 months to 1 year | 33,535          | 14,197          |
| 1 year to 2 years  | 6,866           | 6,454           |
|                    | <u>520,677</u>  | <u>433,824</u>  |

Provision is made for long outstanding and doubtful debts based on reviews of the status of trade receivables outstanding.

- (b) The amounts due are unsecured, interest free and repayable on demand.

### 19 Trade and other payables

|                                    | Group           |                 | Company         |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                    | 2001<br>Rmb'000 | 2000<br>Rmb'000 | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
| Due to subsidiaries (Note a)       | —               | —               | —               | 38,000          |
| Due to holding company (Note a)    | 31,637          | 68,852          | —               | 2,000           |
| Trade payables (Note b)            | 561,259         | 516,726         | —               | —               |
| Other payables and accrued charges | 281,354         | 344,043         | 13,292          | 9,029           |
|                                    | <u>874,250</u>  | <u>929,621</u>  | <u>13,292</u>   | <u>49,029</u>   |

- (a) The amounts due are unsecured, interest free and have no fixed term of repayments.

- (b) The ageing analysis of the trade payables at 31 December 2001 is as follows:

|                   | Group           |                 |
|-------------------|-----------------|-----------------|
|                   | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
| Within 1 year     | 519,385         | 477,378         |
| 1 year to 2 years | 15,649          | 17,086          |
| Over 2 years      | 26,225          | 22,262          |
|                   | <u>561,259</u>  | <u>516,726</u>  |

### 20 Bank loans

|           | Group           |                 | Company         |                 |
|-----------|-----------------|-----------------|-----------------|-----------------|
|           | 2001<br>Rmb'000 | 2000<br>Rmb'000 | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
| Secured   | 381,320         | 433,360         | —               | 30,000          |
| Unsecured | 6,360           | 44,640          | —               | —               |
|           | <u>387,680</u>  | <u>478,000</u>  | <u>—</u>        | <u>30,000</u>   |

## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 21 Share capital

|   | Registered, issued and fully paid |                |                    |                |                   |               |                    |                |
|---|-----------------------------------|----------------|--------------------|----------------|-------------------|---------------|--------------------|----------------|
|   | State Shares                      |                | H Shares           |                | A shares          |               | Total              |                |
|   | No. of shares                     | Rmb'000        | No. of Shares      | Rmb'000        | No. of Shares     | Rmb'000       | No. of Shares      | Rmb'000        |
| At 1 January 2000 and<br>31 December 2000 | 513,000,000                       | 513,000        | 219,900,000        | 219,900        | —                 | —             | 732,900,000        | 732,900        |
| At 1 January 2001                         | 513,000,000                       | 513,000        | 219,900,000        | 219,900        | —                 | —             | 732,900,000        | 732,900        |
| Issues of shares                          | —                                 | —              | —                  | —              | 78,000,000        | 78,000        | 78,000,000         | 78,000         |
| <b>At 31 December 2001</b>                | <b>513,000,000</b>                | <b>513,000</b> | <b>219,900,000</b> | <b>219,900</b> | <b>78,000,000</b> | <b>78,000</b> | <b>810,900,000</b> | <b>810,900</b> |

On 10 January 2001, 78,000,000 A shares of Rmb1.00 each were issued at a subscription price of Rmb9.8 per share. These A shares were subsequently listed on the Shanghai Stock Exchange on 6 February 2001.

### 22 Reserves

|                                    | Group            |                                |   |   |   |                  |
|------------------------------------|------------------|--------------------------------|---|---|---|------------------|
|                                    | Share<br>Premium | Capital<br>reserve<br>(Note a) | Statutory<br>surplus<br>reserve<br>(Note b) | Statutory<br>public<br>welfare<br>reserve<br>fund<br>(Note b) | Discretionary<br>surplus<br>reserve<br>(Note b) | Total            |
|                                    | Rmb'000          | Rmb'000                        | Rmb'000                                     | Rmb'000   | Rmb'000   | Rmb'000          |
| Balance at 1 January 2000          | 120,333          | 425,603                        | 59,540                                      | 60,762  | 45,289  | 711,527          |
| 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)         |
| <b>Balance at 31 December 2000</b> | <b>120,333</b>   | <b>437,278</b>                 | <b>102,762</b>                              | <b>68,211</b>   | <b>23,101</b>                                   | <b>751,685</b>   |
| The Company and subsidiaries       | 120,333          | 437,278                        | 102,762                                     | 68,211  | 23,101  | 751,685          |
| Jointly controlled entities        | —                | —                              | —   | —   | —   | —                |
| Associated companies               | —                | —                              | —   | —   | —   | —                |
|                                    | <b>120,333</b>   | <b>437,278</b>                 | <b>102,762</b>                              | <b>68,211</b>   | <b>23,101</b>                                   | <b>751,685</b>   |
| Balance at 1 January 2001          | 120,333          | 437,278                        | 102,762                                     | 68,211  | 23,101  | 751,685          |
| Premium on issue of shares         | 686,400          | —                              | —   | —   | —   | 686,400          |
| Share issue expenses               | (26,328)         | —                              | —   | —   | —   | (26,328)         |
| Transfer from retained earnings    | —                | 2,873                          | 26,763                                      | 24,547  | 22,156  | 76,339           |
| Transfer to retained earnings      | —                | —                              | (9,123)                                     | —   | (7,396)   | (16,519)         |
| <b>Balance at 31 December 2001</b> | <b>780,405</b>   | <b>440,151</b>                 | <b>120,402</b>                              | <b>92,758</b>   | <b>37,861</b>                                   | <b>1,471,577</b> |
| The Company and subsidiaries       | 780,405          | 440,151                        | 120,402                                     | 92,758  | 37,861  | 1,471,577        |
| Jointly controlled entities        | —                | —                              | —   | —   | —   | —                |
| Associated companies               | —                | —                              | —   | —   | —   | —                |
|                                    | <b>780,405</b>   | <b>440,151</b>                 | <b>120,402</b>                              | <b>92,758</b>   | <b>37,861</b>                                   | <b>1,471,577</b> |



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 22 Reserves (continued)

|                                    | Company                     |   |  |  | Total<br>Rmb'000 |
|------------------------------------|-----------------------------|---|--|--|------------------|
|                                    | Share<br>Premium<br>Rmb'000 | Capital<br>reserve<br>(Note a)<br>Rmb'000 | Statutory<br>surplus<br>reserve<br>(Note b)<br>Rmb'000 | Statutory<br>public<br>welfare<br>reserve<br>fund<br>(Note b)<br>Rmb'000 |                  |
| Balance at 1 January 2000          | 120,333                     | 394,259                                   | 28,979   | 28,979   | 572,550          |
| Transfer from retained earnings    | —                           | —   | 17,744   | 12,566   | 30,310           |
| <b>Balance at 31 December 2000</b> | <b>120,333</b>              | <b>394,259</b>                            | <b>46,723</b>  | <b>41,545</b>  | <b>602,860</b>   |
| Balance at 1 January 2001          | 120,333                     | 394,259                                   | 46,723   | 41,545   | 602,860          |
| Premium on issue of shares         | 686,400                     | —   | —  | —  | 686,400          |
| Share issue expenses               | (26,328)                    | —   | —  | —  | (26,328)         |
| Transfer from retained earnings    | —                           | —   | 15,012   | 7,506  | 22,518           |
| Transfer to retained earnings      | —                           | —   | (4,639)  | (4,640)  | (9,279)          |
| <b>Balance at 31 December 2001</b> | <b>780,405</b>              | <b>394,259</b>                            | <b>57,096</b>  | <b>44,411</b>  | <b>1,276,171</b> |

#### (a) Capital reserve

The transfers from retained earnings represented government subsidies received from local authority, net of minority interests (Note 2).

#### (b) Surplus reserves

The Company, its subsidiaries, jointly controlled entities and associated companies established in PRC ("PRC Companies") are required to maintain certain surplus reserves by transferring from their profit after taxation in accordance with the relevant laws, regulations and, if applicable, articles of association, before any dividend is declared and paid.

##### *Statutory surplus reserve*

The PRC Companies is required to transfer 10% of their profit after taxation, in accordance with the PRC accounting standards and systems, to the statutory surplus reserve fund until the balance reaches 50% of their respective registered capital, where further transfers will be at their directors' recommendation. The statutory surplus reserve fund can only be used to make up prior year losses or to increase share capital.

The Group has transferred an amount of Rmb9,123,000 (2000:Rmb4,663,000) to retained earnings in accordance with the PRC accounting standards and systems.

*(Prepared in accordance with HK GAAP)*

## **22 Reserves (continued)**

### **(b) Surplus reserves (continued)**

#### *Statutory public welfare reserve fund*

The PRC Companies are required to transfer 10% of their profit after taxation calculated in accordance with the PRC accounting standards and systems to the statutory public welfare fund. The statutory public welfare fund can only be used for capital expenditure on employees' collective welfare facilities. The fund is non-distributable other than in liquidation.

In 2000, the Group transferred an amount of Rmb18,959,000 to retained earnings to set off losses resulted from transactions determined in accordance with the PRC accounting standards and systems. There is no such transfer in the current year.

#### *Discretionary surplus reserve*

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

The Group has transferred an amount of Rmb7,396,000(2000:Rmb18,761,000) to retained earnings in accordance with the PRC accounting standards and systems. In 2000, the Group also transferred an amount of Rmb12,852,000 to retained earnings for the purpose of paying dividends. There is no such transfer in the current year.



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 23 Retained earnings

|   | Group<br>Rmb'000 | Company<br>Rmb'000 |
|---|------------------|--------------------|
| At 1 January 2000 as previously reported  | 33,798           | 21,320             |
| Effect of adopting SSAP 9 (Revised)       | 21,987           | 21,987             |
| At 1 January 2000 as restated             | <u>55,785</u>    | <u>43,307</u>      |
| 1999 Final Dividend Paid                  | (21,987)         | (21,987)           |
| Net profit for the year                   | 135,250          | 47,975             |
| Transfer to reserves funds                | (95,393)         | (30,310)           |
| Profit attributable to shareholders       | 39,857           | 17,665             |
| Transfer from reserves funds              | 55,235           | —                  |
| 2000 Interim dividend paid                | (14,658)         | (14,658)           |
|   | <u>114,232</u>   | <u>24,327</u>      |
| Representing:                             |                  |                    |
| 2000 Final dividend proposed              | 24,327           | 24,327             |
| Other                                     | 89,905           | —                  |
| At 31 December 2000                       | <u>114,232</u>   | <u>24,327</u>      |
| Company and subsidiaries                  | 118,094          |                    |
| Jointly controlled entities               | (2,261)          |                    |
| Associated companies                      | (1,601)          |                    |
| Retained earnings at 31 December 2000     | <u>114,232</u>   |                    |
| At 1 January 2001, as previously reported | 89,905           | —                  |
| Effect of adopting SSAP 9 (Revised)       | 24,327           | 24,327             |
| At 1 January 2001 as restated             | <u>114,232</u>   | <u>24,327</u>      |
| 2000 Final dividend paid                  | (24,327)         | (24,327)           |
| Net profit for the period                 | 95,868           | 76,687             |
| Transfer to reserves funds                | (76,339)         | (22,518)           |
| Profit attributable to shareholders       | 19,529           | 54,169             |
| Transfer from reserves funds              | 16,519           | 9,279              |
|   | <u>125,953</u>   | <u>63,448</u>      |
| Representing:                             |                  |                    |
| 2001 Final dividend proposed              | 48,654           | 48,654             |
| Other                                     | 77,299           | 14,794             |
| Retained earnings at 31 December 2001     | <u>125,953</u>   | <u>63,448</u>      |
| Company and subsidiaries                  | 139,777          |                    |
| Jointly controlled entities               | (12,167)         |                    |
| Associated companies                      | (1,657)          |                    |
| At 31 December 2001                       | <u>125,953</u>   |                    |

(Prepared in accordance with HK GAAP)

**23 Retained earnings (continued)**

**(a) Dividends**

|  | <b>2001</b><br><b>Rmb'000</b> | 2000<br><i>Rmb'000</i> |
|--|-------------------------------|------------------------|
| Interim, paid, of Rmb Nil (2000 : Rmb0.02)<br>per share    | —                             | 14,658                 |
| Final, proposed, of Rmb 0.06 (2000 : Rmb0.03)<br>per share | <b>48,654</b>                 | 24,327                 |
|  | <b><u>48,654</u></b>          | <b><u>38,985</u></b>   |

*Notes:*

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31 December 1999 and 2000 were Rmb21,987,000 and Rmb24,327,000 respectively. Under the Group's new accounting policy as described in Note 1, these have been written back against opening reserves as at 1 January 2000 and 2001 and are now charged in the period in which they were proposed.
- (b) At a meeting held on 4 April 2002 the directors declared a final dividend of Rmb48,654,000 ordinary share. The proposed dividend is not reflected as dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2002.

**(b) Profit distribution**

The net profit of the Company shall be applied in accordance with the following order:

- (a) making up losses;
- (b) allocation to statutory surplus reserve fund;
- (c) allocation to statutory public welfare fund;
- (d) allocation to discretionary surplus reserve fund - to be recommended by Directors;  
and
- (e) payment of dividends.

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC accounting standards and systems and the amount determined in accordance with HK GAAP. The amount of retained earnings available for distribution determined in accordance with HKGAAP as at 31 December 2001 was Rmb63,448,000 (2000: Rmb24,327,000).



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 24 Long-term liability

|  | Group          |                |
|--|----------------|----------------|
|  | 2001           | 2000           |
|  | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Bank loans, secured                      | 55,000         | 99,000         |
| Current portion of long-term liabilities | (45,000)       | (34,000)       |
|  | <u>10,000</u>  | <u>65,000</u>  |

The analysis of the above is as follows:

|                                 |               |               |
|---------------------------------|---------------|---------------|
| Bank loans, secured, repayable: |               |               |
| Within one year                 | 45,000        | 34,000        |
| In the second year              | 10,000        | 55,000        |
| In the third to fifth year      | —             | 10,000        |
|                                 | <u>55,000</u> | <u>99,000</u> |

### 25 Notes to the consolidated cash flow statement

#### (a) Reconciliation of operating profit to net cash inflow from operating activities

|  | 2001           | 2000           |
|--|----------------|----------------|
|  | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Operating profit   | 215,384        | 208,670        |
| Amortisation of deferred expenditures  | 10,446         | 10,448         |
| Depreciation and amortisation charges  | 85,679         | 64,883         |
| Impairment charge  | 50,119         | —              |
| Loss on disposal of fixed assets   | 655            | 895            |
| Loss on sale of investment securities  | —              | 3,685          |
| Increase in inventories  | (44,230)       | (95,085)       |
| (Increase)/Decrease in trade and other receivables                               | (96,284)       | 1,403          |
| (Decrease)/Increase in trade and other payables                                  | (56,118)       | 95,489         |
| Interest income  | (22,523)       | (13,947)       |
| Interest expenses  | 30,504         | 43,143         |
| Income from unlisted investments   | (8,728)        | (7,025)        |
| Written off of negative goodwill arising on increase in interest of subsidiaries | (4,526)        | —              |
| Net cash inflow from operating activities  | <u>160,378</u> | <u>312,559</u> |

(Prepared in accordance with HK GAAP)

**25 Notes to the consolidated cash flow statement (continued)**

**(b) Analysis of changes in financing during the year**

|   | Share capital<br>including premium |                | Minority interests |                | Bank loans and other<br>long-term liabilities |                |
|---|------------------------------------|----------------|--------------------|----------------|---|----------------|
|   | 2001                               | 2000           | 2001               | 2000           | 2001  | 2000           |
|   | Rmb'000                            | Rmb'000        | Rmb'000            | Rmb'000        | Rmb'000                                       | Rmb'000        |
| Balance at 1 January  | 853,233                            | 853,233        | 115,468            | 106,731        | 577,000                                       | 625,423        |
| Proceeds from issues of shares                                | 78,000                             | —              | —                  | —              | —   | —              |
| Share premium   | 660,072                            | —              | —                  | —              | —   | —              |
| Acquisition of a subsidiary                                   | —                                  | —              | —                  | 5,786          | —   | 1,500          |
| Capital contribution by minority<br>shareholders              | —                                  | —              | 13,628             | —              | —   | —              |
| Minority interests' in share of profits                       | —                                  | —              | 5,035              | 9,577          | —   | —              |
| Cash outflows from financing                                  | —                                  | —              | —                  | —              | (134,320)                                     | (49,923)       |
| Dividends paid to minority<br>shareholders                    | —                                  | —              | (5,907)            | (6,626)        | —   | —              |
| Changes arising from increase in<br>interests in subsidiaries | —                                  | —              | (4,526)            | —              | —   | —              |
| Balance at 31 December  | <u>1,591,305</u>                   | <u>853,233</u> | <u>123,698</u>     | <u>115,468</u> | <u>442,680</u>                                | <u>577,000</u> |

**26 Commitments**

**(a) Capital commitments for land use rights and buildings**

|                                 | Group           |                 |
|---------------------------------|-----------------|-----------------|
|                                 | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
| Contracted but not provided for | 76,174          | 52,153          |
| Authorised but not provided for | 76,860          | —               |
|                                 | <u>153,034</u>  | <u>52,153</u>   |

**(b) Commitments under operating leases**

At 31 December 2001, the Group had total future aggregate minimum lease payments as follows:

|  | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
|--|-----------------|-----------------|
| Non cancellable operating lease in respect<br>of land and buildings: |                 |                 |
| Not later than one year  | 22,756          | 12,516          |
| Later than one year and not later than<br>five years                 | 32,357          | 14,181          |
| Later than five years  | 6,488           | 2,846           |
|  | <u>61,601</u>   | <u>29,543</u>   |



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 27 Related party transactions

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

|   | Note | 2001<br>Rmb'000 | 2000<br>Rmb'000 |
|---|------|-----------------|-----------------|
| Ultimate holding company                      |      |                 |                 |
| Licence fee expense                           | a    | 5,512           | 4,504           |
| Service fee expense                           | b    | 683             | 1,938           |
| Staff quarters reform costs                   | c    | —               | 4,891           |
| Welfare facilities fee expense                | d    | 418             | 404             |
| Rental expense                                | e    | 2,761           | 2,719           |
| Jointly controlled entities                   | f    |                 |                 |
| Sales of semi-finished goods                  |      | 1,000           | 1,170           |
| Associated company                            | f    |                 |                 |
| Subcontracting charge paid                    |      | —               | 6,599           |
| Sales of finished goods                       |      | 1,837           | 2,051           |
| Fellow subsidiaries                           |      |                 |                 |
| Sales of finished goods and raw materials     | f    | 34,423          | 48,989          |
| Purchases of finished goods and raw materials | f    | 63,839          | 47,960          |
| Deposit for purchase of a building            | g    | 31,700          | —               |

- (a) Pursuant to the Trademark Licence Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("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 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 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 on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 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 expense incurred in the year.

As at 31 December 2001, the total staff reform costs paid and payable to GZPHL amounted to Rmb62,030,000 (2000: Rmb62,030,000). In accordance with the Group's accounting policy, such amount has been included in "Deferred Expenditures" of the balance sheet of the Company and the Group.

(Prepared in accordance with HK GAAP)

## 27 Related party transactions (continued)

- (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 will expire on 31 August 2003.
- (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.
- (g) During the year, Guangzhou Pharmaceutical Corporation Limited, a wholly owned subsidiary of the Company, paid a deposit of Rmb31,700,000 for the purchase of a building from a fellow subsidiary of the Company. The total consideration is Rmb39,239,980.

## 28 Principal subsidiaries

The following is a list of principal subsidiaries as at 31 December 2001:

| Name  | % of equity interest | Registered capital Rmb | Principal activities   |
|---|----------------------|------------------------|--|
| Guangzhou First Chinese Medicine Company Limited <sup>2</sup>     | 96.54                | 150,000,000            | Production of Chinese patent medicine                            |
| Guangzhou Chen Li Ji Chinese Medicine Factory <sup>1</sup>        | 100.00               | 41,591,000             | Production of Chinese patent medicine                            |
| Guangzhou Qi Xing Pharmaceutical Factory <sup>1</sup>             | 100.00               | 31,634,000             | Investment Holdings  |
| Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. <sup>2</sup>     | 88.40                | 86,232,345             | Production of Chinese patent medicine                            |
| Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. <sup>2</sup>      | 87.77                | 65,436,232             | Production of Chinese patent medicine                            |
| Guangzhou Yang Cheng Pharmaceutical Co., Ltd. <sup>2</sup>        | 92.48                | 106,378,439            | Production of Chinese patent medicine                            |
| Guangzhou Xing Qun Pharmaceutical Co., Ltd. <sup>2</sup>          | 88.99                | 77,168,904             | Production of Chinese patent medicine                            |
| Guangzhou Pharmaceutical Corporation Company Limited <sup>2</sup> | 96.99                | 222,000,000            | Trading of western pharmaceutical products and medical apparatus |
| Guangzhou Chinese Medicine Corporation <sup>1</sup>               | 100.00               | 33,493,000             | Trading of Chinese patent medicine and Chinese raw medicine      |



## NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

### 28 Principal subsidiaries (continued)

| Name   | % of equity interest | Registered capital Rmb | Principal activities  |
|--|----------------------|------------------------|---|
| Guangzhou Pharmaceutical Corporation Company Limited<br>Chun Hing Company <sup>1</sup>             | 96.99                | 270,000                | Trading of chemical products and pharmaceutical apparatus                     |
| Guangzhou Pharmaceutical Corporation Company Limited<br>Jianmin Medicine Chain Stores <sup>1</sup> | 96.99                | 10,694,000             | Wholesaling and retailing of medicine, pharmaceutical and related products    |
| Guangzhou Pharmaceutical Corporation Company Limited<br>Experimental Equipment Store <sup>1</sup>  | 96.99                | 52,000                 | Retailing of experimental apparatus and test tubes                            |
| Guangzhou Guo Xin Te Pharmaceutical Miscellaneous Medicine Wholesale Company <sup>1</sup>          | 96.99                | 650,000                | Wholesaling of miscellaneous medicine   |
| Guangzhou Jiamin Medicine Pharmaceutical Sales and Marketing Company <sup>1</sup>                  | 96.99                | 500,000                | Wholesaling of western patent medicine  |
| Guangzhou Pharmaceutical Import & Export Corporation <sup>1</sup>                                  | 100.00               | 3,540,000              | Import and export of medicine   |
| Guangzhou Qixing Pharmaceutical Co., Ltd. <sup>3</sup>   | 75.00                | 100,000,000            | Production of Chinese patent medicine   |
| Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory <sup>1</sup>         | 100.00               | 3,113,000              | Processing of health care beverages and drinks                                |
| Guangzhou Chinese Medicine Corporation Guangzhou Chinese Medicine Shopping Centre <sup>1</sup>     | 100.00               | 260,000                | Wholesaling and retailing of Chinese raw medicine and Chinese patent medicine |
| Guangzhou Chinese Medicine Corporation Medical Powder and Herb Wholesale Company <sup>1</sup>      | 100.00               | 534,000                | Wholesaling of Chinese raw medicine   |
| Guangzhou Chinese Medicine Corporation Sales and Marketing Company <sup>1</sup>                    | 100.00               | 2,083,000              | Wholesaling and retailing of Chinese patent medicine                          |
| Guangzhou Chinese Medicine Corporation Cai Chi Lim Medicine Chain Store <sup>1</sup>               | 100.00               | 3,934,000              | Retailing of Chinese raw medicine and Chinese patent medicine                 |
| Guangzhou Pharmaceutical Corporation Chemical Testing Equipment Wholesale Company <sup>1</sup>     | 96.99                | 6,402,000              | Wholesaling of chemical testing and related apparatus                         |
| Guangzhou Pharmaceutical Corporation Medical Equipment Wholesale Company <sup>1</sup>              | 96.99                | 982,000                | Wholesaling and retailing of medical apparatus                                |
| Guangzhou Guo Ying New and Special Medicine Wholesale Company <sup>1</sup>                         | 96.99                | 6,093,000              | Wholesaling of medicine and health care products                              |

*(Prepared in accordance with HK GAAP)*

### **28 Principal subsidiaries** *(continued)*

Except for the shares in Guangzhou Qixing Pharmaceutical Co., Ltd. which are indirectly held by the Company, all shares in other companies are held directly by the Company.

Kind of legal entities:

- 1 State owned enterprises
- 2 Company limited by shares
- 3 Sino-foreign joint venture

### **29 Ultimate holding company**

The Directors regard Guangzhou Pharmaceutical Holdings Limited, a PRC State-owned enterprise under the control and supervision of the Guangzhou Municipal Government, as being the ultimate holding company.

### **30 Approval of accounts**

The accounts were approved by the board of directors on 4 April 2002.