

FINANCIAL REPORTS

1. Consolidated reports prepared in accordance with PRC accounting standards and systems are set out on pages 13 to 58.

2. Notes to the accounts (prepared in accordance with PRC accounting standards and systems)

Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of the Group, is an enterprise with foreign investment which applies "Accounting Regulations of PRC for Enterprises with Foreign Investment. Commenced from 1st January 2002, the accounting policies adopted by the Company and its subsidiaries (including Guangzhou Qi Xing Pharmaceutical Company Limited) and its associated companies are in accordance with "Accounting Standards of Business Enterprises" and "Accounting Systems Enterprises".

During the reporting period, there were no changes in principal accounting policies, accounting estimates and consolidation range.

3. Condensed accounts for the six months ended 30th June 2002 prepared in accordance with HK GAAP are set out on pages 59 to 70.

Guangzhou Pharmaceutical Company Limited
Cai Zhixiang
Chairman

16th August, 2002, Guangzhou, the PRC

Prepared in accordance with PRC Accounting Standards and Systems (Unaudited)

CONSOLIDATED BALANCE SHEET

As at 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

	<i>Monetary Unit: Renminbi Yuan</i>	
	Closing balance	Beginning balance
Assets		
Current assets		
Cash	865,150,772.53	867,407,649.48
Short term investment	77,988,074.44	67,988,074.44
Notes receivable	—	46,710.00
Dividends receivable	4,066,240.49	6,080,075.49
Interest receivable	—	—
Accounts receivable	806,581,214.37	547,182,576.57
Other receivable	119,535,894.55	134,310,382.41
Prepayments	45,705,377.05	41,166,801.83
Subsidy receivable	7,825,360.90	5,673,006.90
Inventories	665,446,196.37	833,327,684.61
Prepaid expenses	79,553,666.12	72,488,002.62
Long-term debentures investment due within one year	—	—
Other current assets	—	—
Total current assets	2,671,852,796.82	2,575,670,964.35
Long-term investment		
Long-term equity investment	173,234,830.98	107,467,122.39
Long-term debentures investment	—	—
Total long-term investment	173,234,830.98	107,467,122.39
Fixed assets		
Fixed assets—cost	1,174,304,612.43	1,120,412,464.14
Less: accumulated depreciation	411,698,697.45	387,675,891.33
Fixed assets—net value	762,605,914.98	732,736,572.81
Less: provisions for fixed assets	32,640,779.45	24,753,795.66
Net fixed assets	729,965,135.53	707,982,777.15
Construction supplies	—	—
Construction work in progress	189,328,056.61	174,211,477.32
Disposal of fixed assets	—	—
Total fixed assets	919,293,192.14	882,194,254.47
Intangible assets and other assets		
Intangible assets	102,044,793.80	102,137,518.11
Long-term prepaid expenses	32,646,917.09	29,768,646.47
Other long-term assets	—	—
Total intangible assets and other assets	134,691,710.89	131,906,164.58
Deferred tax		
Deferred tax debits	—	—
Total assets	3,899,072,530.83	3,697,238,505.79

CONSOLIDATED BALANCE SHEET (continued)

	Closing blance	Beginning balance
Liabilities & shareholders' equity		
Current Liabilities		
Short-term loans	442,940,000.00	387,680,000.00
Notes payable	576,863.00	682,237.50
Accounts payable	597,534,628.97	558,201,710.52
Advance from customers	20,825,108.44	40,126,980.26
Accrued payroll	90,232,937.99	78,160,241.50
Welfare payable	47,229,900.52	42,466,305.75
Dividends payable	660,300.43	49,198,495.25
Tax payable	52,788,031.36	28,911,407.61
Other liabilities	4,114,880.77	3,443,835.26
Other payables	147,637,004.14	151,264,229.61
Accrued expenses	12,954,759.15	4,553,878.05
Estimated liabilities	—	—
Long-term liabilities due within one year	30,000,000.00	45,000,000.00
Other current liabilities	—	—
Total current liabilities	1,447,494,414.77	1,389,689,321.31
Long-term liabilities		
Long term loans	42,000,000.00	10,000,000.00
Bonds payable	—	—
Long term payable	4,527,322.35	8,854,221.43
Special payables	—	—
Other long term liabilities	5,000,000.00	5,000,000.00
Total long term liabilities	51,527,322.35	23,854,221.43
Deferred tax:		
Deferred tax credits	—	—
Total liabilities	1,499,021,737.12	1,413,543,542.74
Minority shareholders' equity	114,906,519.21	110,785,180.19
Shareholders' equity		
Share capital	810,900,000.00	810,900,000.00
Less: investment returned	—	—
Net share capital	810,900,000.00	810,900,000.00
Capital surplus	1,115,696,776.54	1,110,457,074.10
Reserved fund	251,042,152.19	251,020,754.95
Including: public welfare fund	92,757,528.43	92,757,528.43
Retained earnings	107,505,345.76	531,953.81
Total shareholders' equity	2,285,144,274.49	2,172,909,782.86
Total liabilities and shareholders' equity	3,899,072,530.83	3,697,238,505.79

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Monetary Unit: Renminbi Yuan

Item	Six months ended 30th June 2002	Six months ended 30th June 2001
1 Sales	3,000,882,903.37	2,644,970,813.82
Less: Cost of sales	2,316,922,017.95	2,034,004,853.14
Less: Sales tax and levies	13,583,266.17	11,925,750.88
2 Profit from principal operations	670,377,619.25	599,040,209.80
Add: Profit from other operations	17,414,773.88	15,768,155.71
Less: Operating expenses	224,639,697.95	198,870,670.83
Less: General and administrative expenses	258,225,811.36	255,801,958.85
Less: Financial expenses	7,534,799.14	4,525,182.18
3 Operating profit	197,392,084.68	155,610,553.65
Add: Investment income	(538,721.44)	(1,764,079.66)
Add: Subsidy income	69,318.00	331,906.00
Add: Non-operating income	1,050,767.09	3,164,701.46
Less: Non-operating expenses	13,228,312.14	5,490,460.63
4 Total profit	184,745,136.19	151,852,620.82
Less: Income tax	69,144,132.64	54,116,860.58
Less: Loss and gain of minority shareholders	8,627,611.60	6,971,979.90
5 Net profit	106,973,391.95	90,763,780.34

SUPPLEMENTARY INFORMATION

Profit for the period	Six months ended 30th June 2002				Six months ended 30th June 2001			
	Return on net assets		Earnings per shares		Return on net assets		Earnings per shares	
	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	29.34	30.11	0.8267	0.8267	27.79	3.014	0.7387	0.7508
Profit from operations	8.64	8.87	0.2434	0.2434	7.22	7.83	0.1919	0.1950
Net profit	4.68	4.80	0.1319	0.1319	4.21	4.57	0.1119	0.1158
Net profit after deduction of exceptional items	5.04	5.17	0.1419	0.1419	4.30	4.67	0.1144	0.1163

CONSOLIDATED PROFIT APPROPRIATION STATEMENT (UNAUDITED)

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Monetary Unit Renminbi Yuan

Item	Six months ended 30th June 2002	Six months ended 30th June 2001
1. Net profit	106,973,391.95	90,763,780.34
Add: Retained earnings brought forward	531,953.81	(32,336,599.51)
Add: Transfer from others	—	—
2. Profit distributable	107,505,345.76	58,427,180.83
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
3. Profit distributable to shareholders	107,505,345.76	58,427,180.83
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	—	—
Less: Dividend for ordinary shares transfer to share capital	—	—
4. Retained earnings	107,505,345.76	58,427,180.83

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the period ended 30th June 2002

Prepared by: **Guangzhou Pharmaceutical Company Limited**

Monetary Unit: Renminbi Yuan

Item	Amount
I. Cash flow from operating activities	
Cash received from sales of goods or rendering services	3,249,793,971.20
Refund of tax and levy	2,571,762.82
Other cash received relating to operating activities	104,314,987.32
Subtotal of cash inflow	3,356,680,721.34
Cash paid for goods or services	2,508,228,304.03
Cash paid to or on behalf of employees	208,518,373.69
Taxes paid	239,851,300.49
Other cash paid in relation to operating activities	292,912,182.19
Subtotal of cash outflow	3,249,510,160.40
Net cash flow from operating activities	107,170,560.94
II. Cash flow from investing activities	
Cash received from sale of investments	1,003,240.64
Cash received from investment income	2,126,573.69
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,484,705.40
Other cash received from investing activities	11,080,634.03
Subtotal of cash inflow	16,695,153.76
Cash paid to acquire fixed assets, intangible assets and other long-term assets	75,352,038.62
Cash paid to acquire investments	79,103,140.00
Other cash paid in relation to investing activities	2,710,816.64
Subtotal of cash outflow	157,165,995.26
Net cash flow from investing activities	-140,470,841.50
III. Cash flow from financing activities	
Proceeds from acquiring investments	—
Proceeds from acquiring investments from minority shareholders	—
Proceeds from borrowings	269,940,000.00
Other proceeds relating to financing activities	1,177,095.95
Subtotal of cash inflow	271,117,095.95
Cash repayments of amounts borrowed	172,619,927.31
Cash payments for distribution of dividends, profits or interest expenses	62,039,182.33
Cash payment for distribution of dividends to minority shareholders	3,511,489.89
Other cash payments relating to financing activities	1,903,112.81
Subtotal of cash outflow	240,073,692.34
Net cash flow from financing activities	31,043,403.61
IV. Effect of changes in foreign exchange rate on cash	—
V. Net increase in cash and cash equivalents	-2,256,876.95

Supplementary Information

Amount

1. Reconciliation of net profit to cash flow from operating activities

Net profit	106,973,391.95
Loss & gain of minority shareholders	8,627,611.60
Add: Provision of value impairment of assets	13,206,602.38
Depreciation of fixed assets	39,524,883.05
Amortization of intangible assets	2,179,600.31
Amortization of long-term prepaid expenses	7,077,137.65
Decrease in prepaid expenses (less: increase)	-7,065,663.50
Increase in accrued expenses (less: decrease)	8,400,881.10
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	206,585.44
Losses on scrapping of fixed assets	1,244,327.84
Financial expenses	13,951,785.08
Losses on investment (less: gain)	538,721.44
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	167,881,488.24
Decrease in operating receivables (less: increase)	-278,653,799.62
Increase in operating payables (less: decrease)	23,077,007.98
Others	—

Net cash flow from operating activities 107,170,560.94

2. Investing and financing activities that don't involve in cash receipts or payments

Repayment of debts by the transfer of investments	—
Convertible bonds due within one year	—
Fixed assets obtained by financing lease	—

3. Net increase in cash and cash equivalents

Cash at the end of period	865,150,772.53
Less: Cash at the beginning of period	867,407,649.48
Add: Cash equivalents at the end of period	—
Less: Cash equivalents at the beginning of period	—

Net increase in cash and cash equivalents -2,256,876.95

BALANCE SHEET

As at 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Monetary Unit: Renminbi Yuan

	Unaudited Closing blance	Audited Beginning balance
Assets		
Current assets		
Cash	265,145,554.65	333,582,586.83
Short term investment	13,051,935.55	3,051,935.55
Notes receivable	—	—
Dividends receivable	3,419,382.00	20,710,385.91
Interest receivable	—	—
Accounts receivable	—	—
Other receivable	328,945,716.88	340,009,236.97
Prepayments	—	—
Subsidy receivable	—	—
Inventories	—	—
Prepaid expenses	—	—
Long-term debentures investment due within one year	—	—
Other current assets	—	—
Total current assets	610,562,589.08	697,354,145.26
Long-term investment		
Long-term equity investment	1,657,853,470.54	1,511,549,290.82
Long-term debentures investment	—	—
Total long-term investment	1,657,853,470.54	1,511,549,290.82
Fixed assets		
Fixed assets-cost	30,800,060.76	30,074,896.76
Less: accumulated depreciation	6,038,840.58	4,833,509.98
Fixed assets-net value	24,761,220.18	25,241,386.78
Less: provisions for fixed assets	—	—
Net fixed assets	24,761,220.18	25,241,386.78
Construction supplies	—	—
Construction work in progress	—	—
Disposal of fixed assets	—	—
Total fixed assets	24,761,220.18	25,241,386.78
Intangible assets and other assets		
Intangible assets	—	—
Long-term prepaid expenses	1,796,576.09	2,209,641.77
Other long-term assets	—	—
Total intangible assets and other assets	1,796,576.09	2,209,641.77
Deferred tax		
Deferred tax debits	—	—
Total assets	2,294,973,855.89	2,236,354,464.63

BALANCE SHEET (continued)

As at 30th June 2002

Prepared by: **Guangzhou Pharmaceutical Company Limited**

Monetary Unit: Renminbi Yuan

	Closing blance	Beginning balance
Liabilities & shareholders' equity		
Current Liabilities		
Short-term loans	—	—
Notes payable	—	—
Accounts payable	—	—
Advance from customers	—	—
Accrued payroll	2,629,148.66	2,629,148.66
Welfare payable	2,273,554.22	2,098,445.50
Dividends payable	22,906.34	48,676,906.39
Tax payable	1,067,540.87	316,535.72
Other liabilities	—	11,116.36
Other payables	8,648,766.30	6,230,507.00
Accrued expenses	—	2,300,000.00
Estimated liabilities	—	—
Long-term liabilities due within one year	—	—
Other current liabilities	—	—
	14,641,916.39	62,262,659.63
Total current liabilities	14,641,916.39	62,262,659.63
Long-term liabilities		
Long term loans	—	—
Bonds payable	—	—
Long-term payable	—	—
Special payables	—	—
Other long-term liabilities	—	—
	—	—
Total long-term liabilities	—	—
Deferred tax:		
Deferred tax credits	—	—
	—	—
Total liabilities	14,641,916.39	62,262,659.63
Minority shareholders' equity		
Shareholders' equity		
Share capital	810,900,000.00	810,900,000.00
Less: investment returned	—	—
Net share capital	810,900,000.00	810,900,000.00
Capital surplus	1,115,681,141.51	1,110,457,074.10
Reserved fund	101,507,382.18	101,507,382.18
Including: public welfare fund	44,411,290.37	44,411,290.37
Retained earnings	252,243,415.81	151,227,348.71
	2,280,331,939.50	2,174,091,805.00
Total shareholders' equity	2,280,331,939.50	2,174,091,805.00
Total liabilities and shareholders' equity	2,294,973,855.89	2,236,354,464.63



PROFIT AND LOSS ACCOUNT

For the period ended 30th June 2002

Prepared by: **Guangzhou Pharmaceutical Company Limited**

Monetary Unit: Renminbi Yuan

Item	Six months ended 30th June 2002	Six months ended 30th June 2001
1 Sales	—	—
Less: Cost of sales	—	—
Less: Sales tax and levies	—	—
2 Profit from principal operations	—	—
Add: Profit from other operations	—	144,759.20
Less: Operating expenses	—	—
Less: General and administrative expenses	10,403,830.43	9,359,129.35
Less: Financial expenses	(3,217,632.01)	(11,467,816.56)
3 Operating profit	(7,186,198.42)	2,253,446.41
Add: Investment income	109,066,856.54	93,247,754.10
Add: Subsidy income	—	—
Add: Non-operating income	—	83.13
Less: Non-operating expenses	—	864.03
4 Total profit	101,880,658.12	95,500,419.61
Less: Income tax	864,591.02	—
5 Net profit	101,016,067.10	95,500,419.61

CASH FLOW STATEMENT (UNAUDITED)

For the period ended 30th June 2002

Prepared by: **Guangzhou Pharmaceutical Company Limited**

Monetary Unit: Renminbi Yuan

Item	Amount
I. Cash flow from operating activities	
Cash received from sales of goods or rendering services	—
Refund of tax and levy	—
Other cash received relating to operating activities	2,623,217.88
Subtotal of cash inflow	2,623,217.88
Cash paid for goods or services	—
Cash paid to or on behalf of employees	5,582,045.70
Taxes paid	1,084,991.62
Other cash paid in relation to operating activities	6,030,682.23
Subtotal of cash outflow	12,697,719.55
Net cash flow from operating activities	-10,074,501.67
II. Cash flow from investing activities	
Cash received from sale of investments	—
Cash received from investment income	75,372,458.92
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—
Other cash received from investing activities	10,198,176.50
Subtotal of cash inflow	85,570,635.42
Cash paid to acquire fixed assets, intangible assets and other long-term assets	725,164.00
Cash paid to acquire investments	83,850,000.00
Other cash paid in relation to investing activities	10,704,001.88
Subtotal of cash outflow	95,279,165.88
Net cash flow from investing activities	-9,708,530.46
III. Cash flows from financing activities	
Proceeds from acquiring investments	—
Proceeds from borrowings	—
Other proceeds relating to financing activities	—
Subtotal of cash inflow	—
Cash repayments of amounts borrowed	—
Cash payments for distribution of dividends, profits or interest expenses	48,654,000.05
Other cash payments relating to financing activities	—
Subtotal of cash outflow	48,654,000.05
Net cash flow from financing activities	-48,654,000.05
IV. Effect of changes in foreign exchange rate on cash	—
V. Net increase in cash and cash equivalents	-68,437,032.18

Supplementary Information

Amount

1. Reconciliation of net profit to cash flow from operating activities

Net profit	101,016,067.10
Add: Provision of value impairment of assets	—
Depreciation of fixed assets	1,205,330.60
Amortization of intangible assets	—
Amortization of long-term prepaid expenses	413,065.68
Decrease in prepaid expenses (less: increase)	—
Increase in accrued expenses (less: decrease)	-2,300,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	—
Losses on scrapping of fixed assets	—
Financial expenses	5,669.20
Losses on investment (less: gain)	-109,066,856.54
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	—
Decrease in operating receivables (less: increase)	—
Increase in operating payables (less: decrease)	-1,347,777.71
Others	—
Net cash flow from operating activities	-10,074,501.67

2. Investing and financing activities that don't involve in cash receipts or payments

Repayment of debts by the transfer of investments	—
Convertible bonds due within one year	—
Fixed assets obtained by financing lease	—

3. Net increase in cash and cash equivalents

Cash at the end of period	265,145,554.65
Less: Cash at the beginning of period	333,582,586.83
Add: Cash equivalents at the end of period	—
Less: Cash equivalents at the beginning of period	—
Net increase in cash and cash equivalents	-68,437,032.18

BREAKDOWN OF PROVISION FOR ASSET'S VALUE IMPAIRMENT

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Monetary Unit: Renminbi Yuan

Item	Beginning Balance	Current Increase	Current recovery	Closing Balance
1. Total provision for bad debts	43,499,657.18	8,961,901.27	3,392,036.37	49,069,522.08
Including: Accounts receivables	33,913,217.33	9,240,712.26	2,852,036.37	40,301,893.22
Other receivables	9,586,439.85	(278,810.99)	540,000.00	8,767,628.86
2. Total provision for short-term investment	910,056.63	0.00	0.00	910,056.63
Including: Stock investment	910,056.63	0.00	0.00	910,056.63
Debenture investment	0.00	0.00	0.00	0.00
3. Total provision for inventories	1,475,155.09	(710,451.19)	0.00	764,703.90
Including: Goods in stock	1,171,340.22	(710,451.19)	0.00	460,889.03
Raw materials	303,814.87	0.00	0.00	303,814.87
4. Total provision for long-term investment	9,509,678.46	460,204.88	0.00	9,969,883.34
Including: Long-term equity investment	9,509,678.46	460,204.88	0.00	9,969,883.34
Long-term debenture investment	0.00	0.00	0.00	0.00
5. Total provision for fixed assets	24,753,795.66	7,886,983.79	0.00	32,640,779.45
Including: Houses and building	10,181,008.23	2,143,654.01	0.00	12,324,662.24
Machinery equipment	14,247,509.84	5,637,171.58	0.00	19,884,681.42
6. Provision for intangible assets	9,384,070.90	0.00	0.00	9,384,070.90
Including: Patent	0.00	0.00	0.00	0.00
Trademark	0.00	0.00	0.00	0.00
7. Provision construction work in progress	11,928,475.49	0.00	0.00	11,928,475.49
8. Provision for loan by trust	0.00	0.00	0.00	0.00

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 the 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 in 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.

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.

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

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

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 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.

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

9. Short-term investments

- (1) Short-term investments of the Group are recorded at total price on acquisition after 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.

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 over the investee, the cost method is adopted. For those investments that represent 20% or above of the investee's issued capital, or less than 20% but the Company has significant influence over the investee, the equity method of accounting is adopted. For those investments made which represent more or less than 50% of the investee's issued capital, but the Company has substantial control over 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 on an average basis 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 of not more than 10 years. The shortfall of investment cost over the investor's share of owner's equity of the investee enterprise is amortized over a period of not less than 10 years.

11. Long-term debenture investments

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

Premiums or discounts are amortized on a straight-line basis 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

As 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 a provision for this based on the difference between the recoverable amount and the carrying amount of the investment.

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

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 Rmb2,000. Fixed assets are stated at cost. Depreciation is provided to write off the cost over their useful lives using the 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:

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 depreciating those 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 the case where the value of those fixed assets with provisions 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 a 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 is 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, 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 on an average basis over their expected useful lives.

Intangible assets of the Group are priced at the lower of book value and recoverable amount. At year-end, if the 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.

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 as the weighted average amount of period-end accumulated expenditures incurred for the acquisition or construction of long-term assets multiplied by the capitalization rate.

18. Recognition of income

Income in respect of sales of goods is recognized when 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. 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 that are foreign invested enterprises are not subject 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 that are foreign invested enterprises are not subject to education surcharge in accordance with PRC regulations.

III Taxation and Other Additional Taxes (continued)

2. Enterprise income tax

The Group accrues and pays enterprise income tax at the rate of 33% in accordance with “Temporary regulation of corporate income tax in the People’s Republic of China”.

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 enterprise income tax at a rate of 24% and local income tax at a rate of 3%.

IV. Subsidiaries and Joint Ventures

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

Name of the Company	Registered capital <i>Rmb'000</i>	Invested amount	% of equity interest	Principle activities
		by the Company int its subsidiaries <i>Rmb'000</i>		
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	7,717	6,867	88.99	Production of Chinese patent medicine
Kwang Chow First Chinese Medicine Company Limited	16,600	15,000	90.36	Production of Chinese patent medicine
Guangzhou Chen Li Ji Chinese Medicine Factory	9,400	9,400	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	6,970	6,970	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. Those subsidiaries in which the Company holds over 50% equity interest but are not included in the consolidation scope are as follows:

The Company holds 90%, 92.8% and 80% equity interest respectively in Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd., Guangzhou Baidi Bio-medicine Co., Ltd. and Guangzhou Medicine Commodities Exhibition Store, but does not include them in the consolidation based on the materiality 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 a 53% equity interest in Guangdong Xinghua Health Drink Co., Ltd., but does not include it in the consolidation as the Company does not have substantial control over this company pursuant to relevant contracts and articles of association.

3. Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of Guangzhou Qi Xing Pharmaceutical Factory, is an enterprise with foreign investment, which started to apply “Accounting Regulations for Business Enterprises” from 1 January 2002.

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 unless otherwise stated)

1. Bank balances and cash

	Closing balance	Beginning balance
Cash on hand	1,794,080.66	903,296.98
Cash in bank	861,999,081.17	863,936,517.81
Cash equivalence	1,357,610.70	2,567,834.69
	<u>865,150,772.53</u>	<u>867,407,649.48</u>

(1) Breakdown of cash in bank

	Closing balance	Beginning balance
Current deposit	593,476,470.63	517,661,462.06
Fixed deposit	268,522,610.54	346,275,055.75
	<u>861,999,081.17</u>	<u>863,936,517.81</u>

(2) Breakdown of cash equivalents

	Closing balance	Beginning balance
Bank note deposit	5,500.54	0.00
Credit card deposit	390,405.73	796,196.84
L/C deposit	768,365.75	1,771,637.85
Others	193,338.68	0.00
	<u>1,357,610.70</u>	<u>2,567,834.69</u>

There is a demand deposit amounting to HKD9,811,132.72 placed in Hong Kong and equivalent to Rmb 10,495,687.38.

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

2. Short-term investments

	Closing balance	Provision	Note	Market price
Stock	35,215,492.18	910,056.63		34,615,052.20
Treasury bill	43,682,638.89	0.00		44,721,486.67
	78,898,131.07	910,056.63		

Note: According to the closing price of The Shanghai Stock Exchange and The Shenzhen Stock Exchange on 30 June 2002, the Group made a provision for the amount of which the market price is lower than cost.

3. Dividend receivable

	Closing balance	Beginning balance
Guangzhou Zhongfu Pharmaceutical company Limited	300,843.19	300,843.19
Nanhai Southern Packing Company Limited	3,114,730.00	5,128,565.00
GETDD Yongcheng Medicine Trading Co., Ltd.	650,667.30	650,667.30
	4,066,240.49	6,080,075.49

4. Accounts receivable

(1) Aging analysis of accounts receivable

Aging	Closing balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	785,048,930.39	92.7%	8,528,660.06	1.09%
Over 1 year and within 2 years	20,262,512.68	2.39%	2,042,477.42	10.08%
Over 2 years and within 3 years	8,948,511.32	1.06%	2,795,340.62	31.24%
Over 3 years and within 4 years	9,674,978.58	1.14%	4,997,138.62	51.65%
Over 4 years and within 5 years	7,091,481.08	0.84%	6,081,582.96	85.76%
Over 5 years	15,856,693.54	1.87%	15,856,693.54	100.00%
	846,883,107.59	100.00%	40,301,893.22	4.76%
	Beginning balance			
Aging	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	524,471,292.83	90.26%	5,500,744.29	1.05%
Over 1 year and within 2 years	14,313,546.58	2.46%	1,465,730.64	10.24%
Over 2 years and within 3 years	14,536,322.53	2.50%	4,360,896.76	30.00%
Over 3 years and within 4 years	8,087,606.35	1.39%	4,043,803.17	50.00%
Over 4 years 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%
	581,095,793.90	100.00%	33,913,217.33	5.84%

From the balances aforementioned, no account is due from those shareholders which have a shareholding of 5% or more.

- (2) Compared with the opening balance, the closing balance has increased 45.74% or Rmb265,787,000. The main reason for this increase is due to an extension of the credit terms offered by the Group trading companies to medical institutions from one month to two and three months.
- (3) From the balance aforementioned, Rmb70,089,901.89 is owed by the top five customers with largest balances, representing 8.28% of the total balance.
- (4) There was no write off of bad debt provision in this period.

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

5. Other receivables

(1) Aging analysis of other receivables

Aging	Balance	Closing balance		Provision Percentage
		Percentage	Bad debt provision	
Within 1 year	61,237,919.77	47.73%	245,434.24	0.40%
Over 1 year and within 2 years	36,127,452.44	28.16%	1,494,741.67	4.14%
Over 2 years and within 3 years	6,812,840.15	5.31%	0.00	0.00%
Over 3 years and within 4 years	4,781,189.21	3.73%	122,055.67	2.55%
Over 4 years and within 5 years	7,804,937.56	6.08%	738,464.09	9.46%
Over 5 years	11,539,184.28	8.99%	6,166,933.19	53.44%
	<u>128,303,523.41</u>	100.00%	<u>8,767,628.86</u>	6.83%

Aging	Balance	Beginning balance		Provision Percentage
		Percentage	Bad debt provision	
Within 1 year	94,935,283.23	65.97%	401,537.65	0.42%
Over 1 year and within 2 years	13,863,735.85	9.63%	600,229.40	4.33%
Over 2 years and within 3 years	13,937,386.62	9.69%	785,219.59	5.63%
Over 3 years and within 4 years	7,578,614.79	5.27%	936,966.02	12.36%
Over 4 years 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>	100.00%	<u>9,586,439.85</u>	6.66%

(2) Details of other receivables

	Closing balance
Petty cash	817,064.62
Deposit	6,354,867.16
Advance to staff for operation	24,765,463.74
Current account with external company	81,628,576.83
Expense not claimed	5,003,376.90
Others	9,734,174.16
	<u>128,303,523.41</u>

Among the other receivable accounts, amounts due from those shareholders which have a shareholding of 5% or more due from the Holding amounted to Rmb 6,441,426.36.

6. Advance to suppliers

From the balance aforementioned, no advance has been paid to those shareholders which have a 5% or more shareholding.

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

7. Subsidy receivable

	Closing balance	Beginning balance
Export tax refundable	7,825,360.90	5,673,006.90
	<u>7,825,360.90</u>	<u>5,673,006.90</u>

8. Inventories

	Closing balance		Beginning balance	
	Balance	Provision	Balance	Provision
Goods in transit	575,116.32	0.00	5,479,287.87	0.00
Raw material	82,907,942.81	303,814.87	91,458,334.51	303,814.87
Work in progress	37,023,585.51	0.00	39,868,567.80	0.00
Finished goods	33,441,826.62	0.00	48,502,329.65	81,488.32
Consumables	1,263,144.21	0.00	1,474,055.26	0.00
Packing Material	32,249,611.82	0.00	29,363,183.25	0.00
Goods for process	1,857,609.31	0.00	906,026.31	0.00
Stock goods	476,059,530.53	460,889.03	617,745,095.37	1,089,851.90
Others	832,533.14	0.00	5,959.68	0.00
	<u>666,210,900.27</u>	<u>764,703.90</u>	<u>834,802,839.70</u>	<u>1,475,155.09</u>

The Company made a provision of Rmb764,703.09 for obsolete and slow moving stock and those stocks whose selling prices are lower than their cost based on the difference between the cost and net realizable value

9. Pre-paid expense

	Beginning balance	Addition	Amortization	Closing balance
Consumables	0.00	57,213.09	41,175.40	16,037.69
Insurance expense	2,052,297.95	1,074,408.14	1,190,842.50	1,935,863.59
Repair and maintenance of fixes assets	2,511,742.65	2,222,266.93	2,635,938.96	2,098,070.62
Road toll	154,550.00	80,000.00	156,515.67	78,034.33
Unpaid input VAT	67,606,693.11	60,048,511.45	52,964,078.63	74,691,125.93
Maintenance fee for ERP	0.00	201,000.00	68,004.00	132,996.00
Warehouse platform	0.00	324,519.24	87,800.24	236,719.00
Office software	0.00	146,773.49	33,337.49	113,436.00
Others	162,718.91	1,567,155.22	1,478,491.17	251,382.96
	<u>72,488,002.62</u>	<u>65,721,847.56</u>	<u>58,656,184.06</u>	<u>79,553,666.12</u>

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

10. Long-term equity investment

(1) Details of long-term equity investments 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
Indonesia Sanyou Industrial Company Limited	2014	50.00%	940,112.82
Guangzhou Zhongfu Pharmaceutical company Limited	N/A	50.00%	400,000.00
Guangzhou Zhongsheng Medical Factory Taihe Substation	N/A	50.00%	1,000,000.00
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	20.52%	615,000.00
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	2008	97.70%	5,000,000.00
Holding Company of Nine Cities Eleven Factories Association	N/A	—	50,000.00
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	516,930.33
Hang Zhou Medical Station Co. Ltd.	N/A	13.47%	264,000.00
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
Guangzhou Medicine Company Bei Jing Lu Medicine Store	2002/6	20.00%	160,000.00
Chinese Medical Trading Association Co. Ltd.	N/A	10.00%	400,000.00
Guangzhou Baidi Bio-medicine Co., Ltd.	N/A	92.80%	46,400,000.00
Nanhai Southern Packing Company Limited	2011	21.42%	30,000,000.00
Jihua Medical Appliance Company Limited	N/A	24.00%	2,000,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	2005	40.00%	362,826.38
Everbright Bank	N/A	0.30%	10,725,000.00
Communication Bank Guangdong Branch	N/A	—	348,356.00

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

10. Long-term equity investment (continued)

(2) Changes in long-term equity investments during the current year are as follows:

Investee	Closing balance	Current fluctuation under equity method	Accumulated fluctuation under equity method	Provision	Note
Guangdong Xinghua Health Drink Company Limited.	38,718,237.23	-339,223.96	-925,762.77	7,811,492.23	[1]
Indonesia Sanyou Industrial Company Limited	973,076.06	0.00	32,963.24	973,076.06	[2]
Guangzhou Zhongfu Pharmaceutical company Limited	1,303,149.20	148,117.95	903,149.20	0.00	
Guangzhou Zhongsheng Medical Factory Taihe Substation	785,315.05	0.00	0.00	785,315.05	[3]
Shanghai Jiuhetang Chinese Medicine Company Limited	615,000.00	0.00	0.00	0.00	
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	46,734,150.04	-1,754,661.43	-3,265,849.96	0.00	
Holding Company of Nine Cities Eleven Factories Association	50,000.00	0.00	0.00	0.00	
Ming Tai Industrial (Thailand) Company Limited	332,719.08	0.00	-184,211.25	0.00	
Hang Zhou Medical Station Co. Ltd.	264,000.00	0.00	0.00	0.00	
Guangzhou Medicine Commodities Exhibition Store	835,846.49	-25,546.09	835,846.49	0.00	
GETDD Yongcheng Medicine Trading Co., Ltd.	908,500.23	-12,098.41	1,846,941.58	0.00	
Guangzhou Medicine Company Bei Jing Lu Medicine Store	218,399.05	0.00	0.00	0.00	
Chinese Medical Trading Association Co. Ltd.	400,000.00	0.00	0.00	400,000.00	[4]
Guangzhou Baidi Bio-medicine Co., Ltd.	46,005,715.22	-394,284.78	-394,284.78	0.00	
Nanhai Southern Packing Company Limited	30,000,000.00	0.00	0.00	0.00	
Jihua Medical Appliance Company Limited	2,000,000.00	0.00	0.00	0.00	
Qixing Mazhong Pharmaceutical Co., Ltd.	354,641.21	0.00	-8,185.17	0.00	
Everbright Bank	10,725,000.00	0.00	0.00	0.00	
Communication Bank Guangdong Branch	348,356.00	0.00	0.00	0.00	
Consolidation variance	1,632,609.46	0.00	0.00	0.00	[5]
	<u>183,204,714.32</u>	<u>-2,377,696.72</u>	<u>-1,159,393.42</u>	<u>9,969,883.34</u>	

Note 1: As Guangdong Xinghua Health Drink Company Limited sustained losses for four years, the Group has made a provision at 20% of the book value of this investment based on the investee's financial situation.

Note 2: Full provision has been made as the Group has been unable to obtain financial information from Indonesia Sanyou Industrial Company Limited since 1997 and has no control over the investee's present situation.

Note 3: Guangzhou Zhongsheng Medical Factory Taihe Factory sustained significant losses. The liquidation of the factory in 2001 had not yet been completed at period end. Based on the principle of prudence, a provision for the full amount has been made

Note 4: As Chinese Medical Trading Association Co. Ltd. is facing severe operational difficulties the company is about to abandon this investment.

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

10. Long-term equity investment (continued)

- (2) Changes in long-term equity investments during the current year are as follows: (continued)

Note 5: The consolidation variance of Rmb1,632,609.46 represents the remaining value after amortizing the variance between the payment made by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. in October 1999, to buy a 32% share of Guangzhou Pangaoshou Natural Health product Company Limited, and the share of net assets acquired. The 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, initial amount of which was Rmb 2,090,885.94, is being amortized over the investment period of 13 years commencing from November 1999 as stated in the investment contract. Amortization in the current year is Rmb85,926.84, and the accumulated amortization is Rmb458,276.48.

11. Fixed assets and accumulated depreciation

Cost	Beginning balance	Addition	Disposal	Closing balance	Provision
Building	575,514,566.98	55,947,929.03	1,809,326.36	629,653,169.65	12,324,662.24
Machinery	418,675,505.53	14,070,352.02	9,806,825.15	422,939,032.40	19,884,681.42
Transportation Vehicle	81,189,757.50	2,335,379.34	2,606,378.60	80,918,758.24	329,855.78
Electronic equipment	14,426,582.15	484,249.91	3,592,760.00	11,318,072.06	1,870.66
Office equipment	30,606,051.98	1,589,319.46	2,719,791.36	29,475,580.08	99,709.35
	<u>1,120,412,464.14</u>	<u>74,427,229.76</u>	<u>20,535,081.47</u>	<u>1,174,304,612.43</u>	<u>32,640,779.45</u>
Accumulated depreciation	Beginning balance	Addition	Disposal	Closing balance	
Building	107,455,513.97	18,120,232.04	1,759,441.43	123,816,304.58	
Machinery	213,337,158.22	16,217,452.06	7,187,784.56	222,366,825.72	
Transportation Vehicle	43,684,158.23	3,122,937.45	1,696,980.30	45,110,115.38	
Electronic equipment	7,960,971.23	727,860.29	2,231,397.18	6,457,434.34	
Office equipment	15,238,089.68	1,336,401.21	2,626,473.46	13,948,017.43	
	<u>387,675,891.33</u>	<u>39,524,883.05</u>	<u>15,502,076.93</u>	<u>411,698,697.45</u>	

- (1) During the period, the original cost of construction work in progress completed and transferred to fixed assets amounted to Rmb41,495,337.03.
- (2) As at 30 June 2002, the Group has pledged fixed assets with a net book value of Rmb 207,210,000 (2001: Rmb137,606,000) as security for its bank loans.
- (3) At the end of the period, the Group made a provision of Rmb32,640,779.45 for those fixed assets whose recoverable amounts are lower than their book values due to technological obsolescence, damage or idleness.

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

12. 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 Pharmaceutical Company	147,040,000.00	Working Capital and loan	83.40%
Zhong Yi Office Building in Times Square	29,049,300.00	Working capital	98.41%
Zhong Yi dust cleaning project		Working capital	
Zhong Yi relocation of Yunpu workshop	197,030,000.00	Working Capital and loan	88.89%
Relocation and expansion of Chenliji Chinese medicine absorbing base of Chenliji	29,000,000.00	Working capital	95.92%
Chenliji Houzaowan and Bupiyichangwan technical alteration	11,650,000.00	Working capital	72.10%
Chenliji product show room	4,000,000.00	Working capital	0.73%
Jingxiutang Prepayment for equipment		Working capital and loan	
Jingxiutang Songgang base		Loan	
Jingxiutang GMP upgrade project	30,300,000.00	Working capital and loan	56.84%
Jingxiutang Antibike equipment installed		Working capital	
Jingxiutang suppository production line	1,100,000.00	Working capital	82.84%
Jingxiutang Zhweifengtouguan production line	1,200,000.00	Working capital	90.21%
Pangaoshou office in Fuqian Building	7,707,542.02	Working capital	1.04%
Pangaoshou office equipment installed		Working capital	
Pangaoshou GMP upgrade project	100,000,000.00	Loan	4.65%
Pangaoshou transportation vehicle		Working capital	
Yangcheng pre-treatment technical alteration	2,850,000.00	Working capital and stock capital	48.23%
Alteration of Yangcheng materials warehouse	2,000,000.00	Working capital and stock capital	100.00%
Yangcheng pill workshop	11,000,000.00	Working capital and stock capital	90.00%
Alteration of Yangcheng central checking room	2,000,000.00	Working capital and stock capital	100.00%
Yangcheng granules GMP workshop	37,400,000.00	Stock capital	4.66%
Yancheng self-made packing machine		Working capital	100.00%
Suikang Building of Guangzhou Pharmaceutical Corporation	39,239,480.00	Stock capital	100.00%
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	27,980,000.00	Stock capital	8.44%
Jianmin chain store power room	262,356.30	Working capital	100.00%
Tangjiangcun project of Guangzhou Pharmaceutical Corporation	12,325,000.00	Working capital	97.57%
Guangzhou Chinese medicine Corporation WNSI boiler	180,000.00	Working capital	100.00%
Caizhiling store in Qiancheng Garden	1,745,489.00	Working capital	96.25%
Caizhiling store in Jiahong Garden	2,101,710.00	Working capital	98.68%
Caizhiling store in Wanfeng Garden	2,300,000.00	Working capital	97.39%
The first installment of Yingke software	4,080,000.00	Working capital	29.28%
ERP project of Guangzhou Pharmaceutical Import & Export Corporation	600,000.00	Working capital	16.32%
Pangoushou workshop	2,500,000.00	Working capital	24.24%

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

12. Construction in progress (continued)

(2) Changes in construction work in progress during the current year are as follows:

Project	Beginning balance	Addition	Transferred to fixed asset	Liquidation	Other reduction	Closing balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	109,491,472.37	14,998,159.20	365,364.00	0.00	1,500,000.00	122,624,267.57
Zhong Yi Office Building in Times Square	462,440.00	0.00	0.00	0.00	0.00	462,440.00
Zhong Yi dust cleaning project	80,000.00	0.00	0.00	0.00	0.00	80,000.00
Zhong Yi relocation of Yunpu workshop	11,271,267.86	10,624,141.07	0.00	0.00	0.00	21,895,408.93
Relocation and expansion of Chenlij factory	1,182,640.61	485,755.21	508,444.17	0.00	55,482.94	1,104,468.71
Chinese medicine absorbing base of Chenlij	7,692.00	0.00	0.00	0.00	0.00	7,692.00
Chenlij Houzaowan and Bupiyichangwan technical alteration	4,507,543.08	3,892,339.12	0.00	0.00	0.00	8,399,882.20
Chenlij product show room	15,000.00	14,000.00	0.00	0.00	0.00	29,000.00
Jingxiutang Prepayment for equipment	1,942,977.28	1,326,298.38	1,100,690.00	0.00	313,800.00	1,854,785.66
Jingxiutang Songgang base	11,325,971.21	0.00	0.00	0.00	0.00	11,325,971.21
Jingxiutang GMP upgrade project	51,400.00	363,600.00	0.00	0.00	0.00	415,000.00
Jingxiutang Anbke equipment installed	50,000.00	0.00	0.00	0.00	0.00	50,000.00
Jingxiutang suppository production line	849,357.50	4,474,511.70	0.00	0.00	0.00	5,323,869.20
Jingxiutang Zhufengtouguan production line	968,300.00	3,492,590.00	0.00	0.00	0.00	4,460,890.00
Pangaoshou office in Fujian Building	80,000.00	0.00	0.00	0.00	0.00	80,000.00
Pangaoshou office equipment installed	0.00	798,317.10	157,622.10	135,600.00	0.00	505,095.00
Pangaoshou GMP upgrade project	0.00	4,653,248.00	0.00	0.00	0.00	4,653,248.00
Pangaoshou transportation vehicle	0.00	340,355.00	0.00	0.00	0.00	340,355.00
Yangcheng pre-treatment technical alteration	170,000.00	1,204,422.40	87,078.00	0.00	0.00	1,287,344.40
Alteration of Yangcheng materials warehouse	600,000.00	912,222.16	1,512,222.16	0.00	0.00	0.00
Yangcheng pill workshop	4,277,000.00	2,427,584.63	1,140,143.23	0.00	0.00	5,564,441.40
Alteration of Yangcheng central checking room	699,120.00	609,659.67	1,308,779.67	0.00	0.00	0.00
Yangcheng granules GMP workshop	0.00	1,741,288.20	0.00	0.00	55,758.00	1,685,530.20
Yangcheng self-made packing machine	248,259.35	106,044.08	354,303.43	0.00	0.00	0.00
Suikang Building of Guangzhou Pharmaceutical Corporation	31,700,000.00	1,275,835.00	32,975,835.00	0.00	0.00	0.00
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	672,232.64	1,690,465.26	0.00	0.00	0.00	2,362,697.90
Jianmin chain store power room	270,659.91	0.00	0.00	0.00	270,659.91	0.00
Tangjiangcun project of Guangzhou Pharmaceutical Corporation	0.00	300,000.00	0.00	0.00	0.00	300,000.00
Guangzhou Chinese medicine Corporation WNSI boiler	25,600.00	213,766.27	239,366.27	0.00	0.00	0.00
Caizhiling store in Qiancheng Garden	1,810,946.00	0.00	1,745,489.00	0.00	0.00	65,457.00
Caizhiling store in Jiahong Garden	2,179,473.00	0.00	0.00	0.00	0.00	2,179,473.00
Caizhiling store in Wanfeng Garden	1,200,600.00	1,100,000.00	0.00	0.00	0.00	2,300,600.00
The first installment of Yingke software	0.00	1,194,490.55	0.00	0.00	0.00	1,194,490.55
ERP project of Guangzhou Pharmaceutical Import & Export Corporation	0.00	97,909.45	0.00	0.00	0.00	97,909.45
Pangoushou workshop	0.00	606,214.72	0.00	0.00	0.00	606,214.72
	186,139,952.81	58,943,217.17	41,495,337.03	135,600.00	2,195,700.85	201,256,532.10

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

12. Construction in progress (continued)

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

		Closing balance	Provision
Jingxiutang Songgang base	[Note 1]	11,325,971.21	11,325,971.21
Jingxiutang equipment	[Note 2]	1,854,785.66	602,504.28
		13,180,756.87	11,928,475.49
		13,180,756.87	11,928,475.49

Note1: 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 made a provision for the difference between the transfer price and the cost.

Note2: The Group has made a provision for idle equipment awaiting installation based on the difference between the recoverable amount and the book value.

(4) Capitalized interest expense included in the construction work in progress is as follows:

Project	Beginning balance	Addition	Transferred to fixed assets	Other reduction	Closing balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	13,952,759.22	0.00	0.00	1,080,900.00	12,871,859.22
Jingxiutang equipment	387,541.18	0.00	0.00	0.00	387,541.18
Jingxiutang Songgang base	11,325,971.21	0.00	0.00	0.00	11,325,971.21
	25,666,271.61	0.00	0.00	1,080,900.00	24,585,371.61
	25,666,271.61	0.00	0.00	1,080,900.00	24,585,371.61



VI. Notes to Consolidated Financial Statements (continued) (All amounts are stated in Rmb unless otherwise stated)

13. Intangible assets

Details of intangible assets are as follows:

Items	Acquisition method	Cost	Amortization	Accumulated amortization	Closing balance	Remaining	Provision
						amortization period (No. of months)	
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	44,188.86	381,601.29	3,919,444.71	522	
Land use right of Renmin Road factory	Purchase	2,686,602.00	27,414.30	293,602.88	2,392,999.12	522	
Land use right of No.34 of Guanlv Road	Purchase	40,873.95	445.26	4,897.84	35,976.11	486	
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,600,547.00	17,047.26	191,525.03	1,409,021.98	492	
Land use right of Conggui Road	Purchase	245,477.00	2,454.77	23,092.92	222,384.09	546	
Land use right of No. 77 of Shanmulan	Purchase	199,200.00	2,492.00	8,800.00	190,400.00	575	
Land use right of No. 32 of Duobao Road Changhua New Street, and No. 3 Zhongshanba Road Shilu Jishigui Street	Purchase	1,392,144.00	34,332.00	87,352.00	1,304,792.00	217	
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	23,625.81	187,806.50	2,174,774.58	551	
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	270,061.74	2,610,596.82	24,395,577.10	542	
Land use right of Songgang Factory	Purchase	20,417,970.00	121,236.12	1,937,452.24	18,480,517.76	498	8,903,370.66
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	28,862.04	736,417.28	3,353,582.72	487	
Land use right of Panyu Dongsha Development Distric	Purchase	15,947,019.00	159,468.00	1,735,682.00	14,211,337.00	522	
Land use right of Guangzhou Baiyun District Jiangcun factory	Purchase	3,463,092.00	35,437.86	273,683.97	3,189,408.03	540	
Land use right of Shi Er Pu New Street	Purchase	3,509,041.00	47,419.50	181,774.75	3,327,266.25	421	
Land use right of He Ping West Road	Purchase	1,535,744.00	20,753.28	79,554.24	1,456,189.76	421	
Land use right of Huang Jin Wei	Purchase	1,051,697.00	14,212.14	54,479.87	997,217.13	421	
Land use right of No.103 of Da Tong Road	Revaluation surplus	17,928,863.00	247,636.20	2,393,816.64	15,535,046.36	376	
Land use right of No.328 in Bei Jing Road	Purchase	1,306,988.00	16,337.34	157,927.62	1,149,060.38	120	

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

13. Intangible assets (continued)

(1) Details of intangible assets are as follows: (continued)

Items	Acquisition method	Cost	Amortization	Accumulated amortization	Closing balance	Remaining amortization period (No. of months)	Provision
Land use right of No.265 Da Xin Street	Purchase	330,153.00	3,301.53	36,316.83	293,836.17	534	
Land use right of A area of Xin Zhou Warehouse	Purchase	1,096,704.00	10,967.04	146,942.32	949,761.68	520	
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	21,241.80	347,404.46	2,328,736.54	521	480,700.24
Land use right of Sai Ba Kou Warehouse	Purchase	402,518.00	4,025.16	53,931.36	348,586.64	520	
Land use right of Chang An Warehouse	Purchase	114,675.00	1,274.16	16,511.47	98,163.53	462	
Land use right of Jiu Fo Warehouse	Purchase	65,136.00	814.20	10,192.83	54,943.17	405	
Land use right of No.85 of Shang Jiu Road	Purchase	3,557,893.98	923,067.47	1,012,568.94	2,545,325.04	462	
Land use right of No.26 of Hong Chang Street	Purchase	309,046.00	3,090.48	41,407.83	267,638.17	520	
Land use right of No.20 of Bao Hua Bei Road	Purchase	163,591.00	2,044.86	25,599.36	137,991.64	405	
Land use right of No.44 of Bing Jiang Xi Road	Purchase	577,366.00	6,415.14	83,131.94	494,234.06	462	
Land use right of No.1 of Shan Yuan 3rd Street	Purchase	37,120.00	463.98	3,789.17	33,330.83	678	
Land use right of No.22 of Guang Zhi Road	Purchase	109,032.00	1,362.90	11,130.35	97,901.65	678	
Land use right of No.29 of Tong Fu Zhong Long Dao Road	Purchase	27,045.00	338.10	2,761.00	24,284.00	678	
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	17,645.22	178,055.81	1,586,467.09	539	
Land use right of No.33 of Chi Gang Zhong Road	Purchase	1,755,288.00	0.00	105,317.28	1,649,970.72	558	
Land use right of Panyu Dongsheng Factory	Purchase	2,896,279.62	30,390.60	537,688.72	2,358,590.90	498	
Medicine recipe and techniques	Investment accepted	338,640.00	13,020.00	169,260.00	169,380.00	54	
Proprietary technology of Luoxuanzao	Investment accepted	500,000.00	24,990.00	275,090.00	224,910.00	90	
Land use right of Xihua Road No. 54	Purchase	21,541.00	1,723.20	1,723.20	19,817.80	552	
		<u>125,827,751.45</u>	<u>2,179,600.31</u>	<u>14,398,886.75</u>	<u>111,428,864.70</u>		<u>9,384,070.90</u>

As the transfer value is lower than the book amount, the Group has made a provision for the difference.

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

14. Long-term deferred expense

(1) Details of long-term deferred expense are as follows:

Item	Amortization period	Cost	Remaining amortization period
Improvements	5 years	21,400,506.35	1-5 years
Expenditure on leasehold improvement	5 years	1,693,800.00	6 months
Expenditure on public utility	5 years	3,773,108.91	1-5 years
Installation of telephone	5 years	1,169,000.00	1 year
Maintenance expenditure on fixed assets	5 years	1,474,936.16	4 - 5 years
Expenditure on development of electrical power	5 years	2,373,782.60	6 months
Expenditure on development of electrical power of new factory	5 years	800,000.00	6 months
Revaluation surplus of H shares	5 years	8,204,107.17	6 months
Computer system	5 years	6,753,673.73	2 - 5 years
GMP project improvement	5 years	4,462,817.44	2 years
ERP system	5 years	5,404,277.66	1-4 years
Usage right of utilities	4 years	1,118,900.00	6 months
Medical fund for retired staff	5 years	2,145,000.00	3 years and 9 months
Transitional labor insurance for post employment	10 years	3,080,347.18	10 years
Labor insurance premium	5 years	350,733.73	4 years and 3 months
Others	5 years	3,429,856.41	1-5 years
		<u>67,634,847.34</u>	

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

Item	Beginning balance	Addition	Amortization in 2001	Accumulated amortization	Closing balance
Improvements	14,385,129.74	2,874,459.07	2,357,828.28	6,498,745.82	14,901,760.53
Expenditure on leasehold improvement	338,760.00	0.00	169,380.00	1,524,420.00	169,380.00
Expenditure on public utility	402,241.34	823,208.91	671,909.44	3,219,568.10	553,540.81
Installation of telephone	312,458.84	0.00	56,350.18	912,891.34	256,108.66
Maintenance expenditure on fixed assets	1,022,484.10	288,990.62	147,493.61	310,955.05	1,163,981.11
Expenditure on development of electrical power	912,696.52	0.00	416,418.24	1,877,504.32	496,278.28
Expenditure on development of electrical power of new factory	160,016.00	0.00	79,998.00	719,982.00	80,018.00
Revaluation surplus of H shares	1,569,130.69	0.00	815,645.01	7,450,621.49	753,485.68
computer system	3,606,960.11	129,850.00	721,692.42	3,738,556.04	3,015,117.69
GMP project improvement	667,444.99	0.00	204,907.39	3,964,279.84	462,537.60
ERP system	3,822,320.90	140,500.00	601,855.20	2,043,311.96	3,360,965.70
Usage right of utilities	251,752.64	0.00	125,876.22	993,023.58	125,876.42
Medical fund for retired staff	1,964,650.35	0.00	498,895.26	679,244.91	1,465,755.09
Transitional labor insurance for post employment	0.00	3,080,347.18	851.96	851.96	3,079,495.22
Labor insurance premium	334,098.49	0.00	41,762.28	58,397.52	292,336.21
Others	18,501.76	2,618,052.49	166,274.16	959,576.32	2,470,280.09
	<u>29,768,646.47</u>	<u>9,955,408.27</u>	<u>7,077,137.65</u>	<u>34,951,930.25</u>	<u>32,646,917.09</u>

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

15. Short-term loans

	Closing balance	Beginning balance
Loan by credit	3,500,000.00	6,360,000.00
Pledged loans	163,000,000.00	135,500,000.00
Guaranteed loans	276,440,000.00	245,820,000.00
	442,940,000.00	387,680,000.00
	442,940,000.00	387,680,000.00

16. Notes payable

The entire closing balance of Rmb576,863.00 represents bank acceptance bills.

17. Accounts payable

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

18. Advances to Suppliers

Within the closing balance aforementioned, no advance has been paid to shareholders which have a 5% or more shareholding.

19. Dividend payable

	Closing balance	Reason for non settlement
Overseas public shares	22,906.31	Payable dividend of 2001
Domestic public shares	637,394.12	Payable dividend of 2001
	660,300.43	
	660,300.43	

20. Taxes payable

	Closing balance	Beginning balance
Business tax	277,541.54	761,421.24
Value added tax	20,196,791.22	515,997.72
City construction tax	1,444,842.52	875,768.73
Enterprise income tax	28,615,568.23	23,463,774.51
Property tax	631,162.44	619,829.36
Withholding tax	1,558,815.32	2,673,814.53
Others	63,310.09	801.52
	52,788,031.36	28,911,407.61
	52,788,031.36	28,911,407.61

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

21. Other liabilities

	Note	Closing balance
Education surcharge	(1)	631,329.74
Flood prevention levy	(2)	3,446,853.20
Others		36,697.83
		4,114,880.77

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

(2) Paid at 1.3% of the payable amount of VAT, Business tax, consumption tax and resource tax.

22. Other payables

(1) Break down of other payables closing balance

	Closing balance	Beginning balance
Deposit	9,380,698.70	8,383,578.82
Technology improvement	14,248,435.36	17,080,712.35
Rental	270,616.05	200,437.54
Interest	1,566,696.71	170.10
Labor union fund	1,018,202.76	1,081,121.97
Staff education fund	9,896,798.77	9,180,327.65
Current account due to external company	50,091,252.94	59,932,720.41
Tax addition and government levies	1,781,579.58	693,121.34
Advance from staff	1,179,040.11	1,063,396.76
Labor insurance	2,616,991.31	4,758,192.23
Staff bonus and welfare fund	2,029,438.87	2,226,852.13
Payables to the Holding	10,581,684.43	25,704,493.22
Allowance of staff housing	1,100,000.00	0.00
Centralization fund	14,876,929.56	15,010,994.70
Operator incentive fund	5,152,521.00	2,350,000.00
Appropriation of technical improvement from financial bureau	1,900,000.00	0.00
Others	19,946,117.99	3,598,110.39
	147,637,004.14	151,264,229.61

(2) Among the other payable accounts, payables to the Holding, which holds over 5% of the total share, amounts to Rmb10,581,684.43.

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

23. Accrued expenses

	Closing balance	Beginning balance
Rental	751,616.84	727,892.56
Interest on loan	401,776.52	595,415.50
Insurance	620,180.10	0.00
Maintenance	2,700,000.00	0.00
Water & electricity	150,980.00	95,000.00
Advertising	5,399,261.35	0.00
Audit fee	0.00	3,000,000.00
Advance to salesman	824,918.34	0.00
Decoration of warehouse and stores in Tanjiang Village	463,469.93	0.00
Others	1,642,556.07	135,569.99
	<u>12,954,759.15</u>	<u>4,553,878.05</u>

24. Long-term liabilities due within 1 year

The balance of the long-term liabilities due within 1 year is Rmb30,000,000.00, and all are pledged Rmb loans.

25. Long-term loans

Of the closing balance of Rmb42,000,000.00, one loan of Rmb10,000,000.00, which is valid from 8 August 2001 to 22 March 2003 with an annual rate of 6.53%, was pledge borrowed from the Industrial & Commercial Bank of China Guangzhou 2nd Branch, and the other loan of Rmb32,000,000.00, which is valid from 20 May 2002 to 20 May 2005 with an annual rate of 5.49%, was pledge borrowed from the Industrial & Commercial Bank of China Guangzhou 13th Branch.

26. Long-term payables

Creditor	Nature	Closing balance	Beginning balance
Guangzhou Financial Bureau	Dividend payable to nation	934.51	3,601,287.27
Guangzhou Financial Bureau	Dividend of state owned share	2,732,919.49	2,732,919.49
Housing fund		107,107.56	99,804.49
Others		1,686,360.79	2,420,210.18
		<u>4,527,322.35</u>	<u>8,854,221.43</u>

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

27. 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	78,000,000.00	0.00	0.00	78,000,000.00
Overseas public shares	219,900,000.00	0.00	0.00	219,900,000.00
	<u>810,900,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>810,900,000.00</u>

28. Capital Surplus

Item	Beginning balance	Addition	Reduction	Closing balance
Share premium	883,093,510.95	0.00	0.00	883,093,510.95
Provision for donation in the form of non-cash assets	1,621,716.80	219,652.84	0.00	1,841,369.64
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	1,989,000.00	0.00	0.00	1,989,000.00
Other capital surplus	223,378,953.26	5,020,049.60	0.00	228,399,002.86
Exchange gain on foreign currency capital	373,893.09	0.00	0.00	373,893.09
	<u>1,110,457,074.10</u>	<u>5,239,702.44</u>	<u>0.00</u>	<u>1,115,696,776.54</u>

29. Reserve fund

Item	Beginning balance	Addition	Reduction	Closing balance
Statutory reserve fund	120,402,359.88	15,494.93	0.00	120,417,854.81
Statutory public welfare fund	92,757,528.43	0.00	0.00	92,757,528.43
Discretionary reserve fund	32,887,373.57	5,902.32	0.00	32,893,275.89
Transfer from tax exemption	4,973,493.07	0.00	0.00	4,973,493.07
	<u>251,020,754.95</u>	<u>21,397.25</u>	<u>0.00</u>	<u>251,042,152.20</u>

The closing balance of the reserve fund increased Rmb21,397.25 when compared with the beginning balance. The main reason is due to the Group increasing its shareholder percentage of Guangzhou Pangaoshou Natural Health Drinks Company Ltd., from 75% to 90%.

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

30. Retained earning

- (1) Please refer to the Consolidated Profit Appropriation Statement for details of retained earning.
- (2) Please refer to Note V mentioned above for detailed policy of profit distribution.

31. Net sales

	Six months ended 30th June 2002	Six months ended 30th June 2001
(1) Manufacturing and selling	929,306,471.83	841,456,539.52
(2) Trading		
Wholesale	1,852,312,482.61	1,588,581,318.48
Retail	161,940,074.86	173,502,985.05
Import & export sales	57,323,874.07	41,429,970.77
	2,071,576,431.54	1,803,514,274.30
	3,000,882,903.37	2,644,970,813.82

Sales from the top five customers amount to Rmb141,515,210.68 and represent 4.72% of the total net sales.

32. Cost of sales

	Six months ended 30th June 2002	Six months ended 30th June 2001
(1) Manufacturing and selling	420,362,233.56	394,393,266.85
(2) Trading		
Wholesale	1,720,820,644.60	1,468,930,700.61
Retail	122,438,070.22	132,203,159.17
Import & export sales	53,301,069.57	38,477,726.51
	1,896,559,784.39	1,639,611,586.29
	2,316,922,017.95	2,034,004,853.14

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

33. Sales tax and levies

	Six months ended 30th June 2002	Six months ended 30th June 2001
Business tax	425,833.83	450,845.41
City construction tax	9,168,398.15	8,055,597.43
Land appreciation tax	692.29	163,035.52
Education surcharge	3,558,659.34	3,248,097.64
Others	429,682.56	8,174.88
	<u>13,583,266.17</u>	<u>11,925,750.88</u>

34. Profit from other operations

	Six months ended 30th June 2002	Six months ended 30th June 2001
(1) Income from other operations		
Assets leased	14,198,938.94	13,216,780.23
Sales of material	2,556,644.63	3,486,928.71
Income from consultation	1,452,580.90	0.00
Interest	370,000.00	3,482,605.04
Income from storage and conference	1,230,325.12	0.00
Income from product propaganda	1,332,947.70	1,058,100.98
Others	1,639,287.71	621,660.23
	<u>22,780,725.00</u>	<u>21,866,075.19</u>
(2) Cost from other operating		
Assets leased	2,300,535.43	2,137,489.21
Sales of material	2,157,866.72	3,156,500.68
Tax & surcharge	78,329.97	0.00
Housing service	342,088.34	0.00
Others	487,130.66	803,929.59
	<u>5,365,951.12</u>	<u>6,097,919.48</u>
Profit from other operations	<u>17,414,773.88</u>	<u>15,768,155.71</u>

VI. Notes to Consolidated Financial Statements (continued)
(All amounts are stated in Rmb unless otherwise stated)

35. Financial expenses

	Six months ended 30th June 2002	Six months ended 30th June 2001
Net interest expense	7,084,001.57	4,504,254.13
Net exchange loss	42,636.36	-317,005.54
Bank charges	401,531.95	327,107.49
Others	6,629.26	10,826.10
	7,534,799.14	4,525,182.18

36. Investment income

	Six months ended 30th June 2002	Six months ended 30th June 2001
Stock investment		
Cost method	1,746,046.57	0.00
Other investment	380,527.12	-1,225,504.79
Cost method	-2,665,295.13	-539,414.87
Equity method	0.00	840.00
Debt investment	0.00	840.00
	-538,721.44	-1,764,079.66

37. Subsidy income

Subsidy income in the current year includes export tax refunds amounting to Rmb69,318.00.

38. Non-operating income

	Six months ended 30th June 2002	Six months ended 30th June 2001
Net profit from disposal of fixed assets	97,374.47	70,019.57
Sales of obsolete material	12,770.32	23,209.16
Fines	18,021.73	25,909.59
MTR removal compensation	547,162.03	0.00
Creditors written off	2,031.93	1,578,988.21
Other levies refund	0.00	23.87
Others	373,406.61	1,466,551.06
	1,050,767.09	3,164,701.46

VI. Notes to Consolidated Financial Statements (continued)

(All amounts are stated in Rmb unless otherwise stated)

39. Non-operating expenses

	Six months ended 30th June 2002	Six months ended 30th June 2001
Net loss on disposal of fixed assets	1,213,551.70	144,527.53
Donation	524,343.88	287,535.33
Fines	132,547.63	409,968.79
Exceptional loss	100.00	5,289.04
Urban dyke protection expenses	1,471,852.84	0.00
Family control bonus	390,117.56	0.00
Provision for value impairment of assets	7,886,983.79	0.00
Others	1,608,814.74	4,643,139.94
	<u>13,228,312.14</u>	<u>5,490,460.63</u>

40. Income tax

Income tax for the current period amounts to Rmb69,144,132.64, an increase of 27.77% when compared with last year. The main reasons are:

- Total profit increased by 21.66%;
- The Group pays tax under the method "levy first, refund later" in prior year. Under this method the Group is required to pay taxes at a rate of 33%, and then enjoys a tax refund privilege on part of the local income (60% of the amount exceeding the rate 15%). As at 30 June 2002, the Group has only received tax refunds for the 1st half of 2001. From 1 January 2002, the applicable income tax rate for the Group is 33%, there would not be such tax refund privilege from then on.

41. Other cash received relating to operating activities

Item	Amount
Houses leased	9,112,997.51
Appropriation from Guangzhou Finance Bureau for technical export	1,500,000.00
Interest from bank deposit	2,623,217.88

42. Cash paid relating to other operating activities

Item	Amount
Advertising	47,233,849.20
Insurance premium	1,000,000.00
Accrued expenses	2,087,927.00
Loan to Huan Ye Pharmaceutical Company Ltd.	3,000,000.00
GMP implementation	4,548,127.78

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

1 Other receivables

Aging	Balance	%	Provision	Balance	%	Provision
Within 1 year	91,851,655.18	27.90%	0.00	154,365,790.44	45.37%	0.00
1 ~ 2 years	124,666,148.34	37.87%	0.00	45,995,685.86	13.52%	0.00
2 ~ 3 years	52,964,698.49	16.09%	0.00	52,974,298.49	15.57%	0.00
3 ~ 4 years	58,790,794.10	17.86%	0.00	68,743,870.77	20.20%	251,021.77
4 ~ 5 years	923,442.54	0.28%	251,021.77	18,180,613.18	5.34%	0.00
	<u>329,196,738.65</u>	<u>100.00%</u>	<u>251,021.77</u>	<u>340,260,258.74</u>	<u>100.00%</u>	<u>251,021.77</u>

Including an amount of Rmb6,441,426.36 due from GZPHL.

2 Long-term investments

Name of investee	Investment period	% equity held	Balance as at 30th June 2002	Original investment	Increase (decrease) in equity	Accumulated increase (decrease) in equity
Guangzhou Baidi Bio-medicine Co., Ltd.	2001-	92.80%	46,005,715.22	46,400,000.00	-394,284.78	-394,284.78
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	2001-2008	90.00%	42,884,150.04	46,150,000.00	-1,754,661.43	-3,265,849.96
Nanhai Nanfang Packing Company Limited	1999-2011	21.42%	30,000,000.00	30,000,000.00	0.00	0.00
Jihua Pharmaceutical Apparatus Company Limited	2000-	24.00%	2,000,000.00	2,000,000.00	0.00	0.00
Everbright Bank	2001-	0.30%	10,725,000.00	10,725,000.00	0.00	0.00
Guangzhou Xing Qun Pharmaceutical Co., Ltd.		88.99%	167,011,210.15	125,322,318.71	9,270,556.10	41,688,891.44
Kwang Chow First Chinese Medicine Company Limited		90.36%	264,953,352.11	156,209,321.79	40,687,044.49	108,744,030.32
Guangzhou Chen Li Ji Chinese Medicine Factory		100.00%	174,720,920.31	98,465,344.66	2,830,042.51	76,255,575.65
Guangzhou Qi Xing Pharmaceutical Factory		100.00%	152,203,308.04	126,775,482.62	12,623,042.43	25,427,825.42
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.		88.40%	80,432,235.68	101,489,814.94	4,579,897.83	-21,057,579.26
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.		87.77%	147,119,076.55	144,298,132.51	-6,767,424.05	2,820,944.04
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.		92.48%	115,781,387.72	102,035,124.44	304,767.47	13,746,263.28
Guangzhou Pharmaceutical Corporation		90.09%	311,677,395.79	225,489,155.53	14,652,193.16	86,188,240.26
Guangzhou Chinese Medicine Corporation		100.00%	93,782,865.66	73,751,978.34	2,849,707.17	20,030,887.32
Guangzhou Pharmaceutical Import & Export Corporation		100.00%	18,556,853.27	17,957,328.73	117,666.24	599,524.54
Total			<u>1,657,853,470.54</u>		<u>78,998,547.14</u>	<u>350,784,468.27</u>

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

3 Investment income

	Six months ended 30th June 2002	Six months ended 30th June 2001
Stock investment	1,636,200.00	0.00
Long-term equity investment	107,430,656.54	93,247,754.10
	<u>109,066,856.54</u>	<u>93,247,754.10</u>

VIII Analysis of the Group's Turnover and Profit from Principal Activities

Area	Turnover		Cost of sales		Profit from principal activities	
	Six months ended 30th June 2002 Rmb'000	Six months ended 30th June 2001 Rmb'000	Six months ended 30th June 2002 Rmb'000	Six months ended 30th June 2001 Rmb'000	Six months ended 30th June 2002 Rmb'000	Six months ended 30th June 2001 Rmb'000
Manufacturing	929,307	841,457	420,362	394,393	508,945	447,064
Trading:						
Wholesale	2,071,576	1,803,514	1,896,560	1,639,612	175,016	163,902
Retail	1,852,312	1,588,581	1,720,821	1,468,931	131,491	119,650
Import and export	161,940	173,503	122,438	132,203	39,502	41,300
	<u>57,324</u>	<u>41,430</u>	<u>53,301</u>	<u>38,478</u>	<u>4,023</u>	<u>2,952</u>
	<u>3,000,883</u>	<u>2,644,971</u>	<u>2,316,922</u>	<u>2,034,005</u>	<u>683,961</u>	<u>610,966</u>

IX 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 Guangzhou	Production and sales	Holding	Company with limited liabilities	Cai Zhixiang
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	252 Renmin Central Road Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Li Xinghua
Kwang Chow First Chinese Medicine Factory	77 Shanmulan Road Guangzhou	Production and sales	Subsidiary	Controlled by the State	Mai Qijie
Guangzhou Chen Li Ji Chinese Medicine Factory	1688 Guangzhou Dadao Guangzhou	Production and sales	Subsidiary	Controlled by the State	Li Guoju
Guangzhou Qi Xing Pharmaceutical Factory	33 Cigang North Street, Xingang Central Road, Guangzhou	Production and sales	Subsidiary	Controlled by the State	Zhu Bohua
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	179 Renmin South Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Huang Haitao
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	618-620 Jiefang North Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Liu Runfa
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	Bridge side, Jiang Villege, Baiyun District, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Chen Xiangzhi
Guangzhou Pharmaceutical Corporation	97 Datong Road, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Feng Zhansheng
Guangzhou Chinese Medicine Corporation	140 Guangfu South Road, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Shu Dezhan
Guangzhou Pharmaceutical Import & Export Corporation	59 Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Tu Kejin

2. Registered capital and its changes of related parties with substantial control

Unit: Rmb 0'000

Name	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.	7,717	0	0	7,717
Kwang Chow First Chinese Medicine Factory	16,600	0	0	16,600
Guangzhou Chen Li Ji Chinese Medicine Factory	9,000	400	0	9,400
Guangzhou Qi Xing Pharmaceutical Factory	8,242	0	0	8,242
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	8,623	0	0	8,623
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	6,544	0	0	6,544
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	10,638	0	0	10,638
Guangzhou Pharmaceutical Corporation	22,200	0	0	22,200
Guangzhou Chinese Medicine Corporation	6,500	470	0	6,970
Guangzhou Pharmaceutical Import & Export Corporation	1,500	0	0	1,500

IX Related Party Relationships & Transactions (continued)

3. Changes in shareholding or equity interests held by related parties with substantial control

Unit: Rmb 0'000

Name	Beginning balance		Increase during the year		Decrease during the year		Closing balance	
		%		%		%		%
Guangzhou Pharmaceutical Holdings Company Limited	51,300	63.26	0	0	0	0	51,300	63.26
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	6,867	88.99	0	0	0	0	6,867	88.99
Kwang Chow First Chinese Medicine Factory	15,000	90.36	0	0	0	0	15,000	90.36
Guangzhou Chen Li Ji Chinese Medicine Factory	9,000	100	400	0	0	0	9,400	100
Guangzhou Qi Xing Pharmaceutical Factory	8,242	100	0	0	0	0	8,242	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	7,623	88.40	0	0	0	0	7,623	88.40
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	5,744	87.78	0	0	0	0	5,744	87.78
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	9,838	92.48	0	0	0	0	9,838	92.48
Guangzhou Pharmaceutical Corporation	20,000	90.09	0	0	0	0	20,000	90.09
Guangzhou Chinese Medicine Corporation	6,500	100	470	0	0	0	6,970	100
Guangzhou Pharmaceutical Import & Export Corporation	1,500	100	0	0	0	0	1,500	100

4. Related party transactions

(1) Relationships 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
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
Guangzhou Baiyunshan Medical Technology Development Company Limited	Fellow subsidiary
Guangzhou Huanan Medical Apparatus Company Limited	Fellow subsidiary

IX Related Party Relationships & Transactions (continued)

4. Related party transactions (continued)

(2) Purchase of goods

Name	Six months ended 30th June 2002	<i>Unit: Rmb '000</i> Six months ended 30th June 2001
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	17,751	0
Guangzhou Guanghua Pharmaceutical Company Limited	14,084	273
Guangzhou Qiaoguang Pharmaceutical Factory	8,165	747
Guangzhou Mingxing Pharmaceutical Factory	8,849	698
Guangzhou Tianxi Pharmaceutical Company Limited	3,919	7
Guangzhou Hejigong Factory	841	371
Guangzhou Sanitation Production Factory	1,522	3,839
Guangzhou Huanan Medical Apparatus Company Limited	49	0
Guangzhou Pharmaceutical Goods and Supply Company	157	85
Baolian Development Company Limited	10,139	0
Guangzhou Baiyunshan Pharmaceutical Factory	160	0
Guangzhou Baiyunshan External Use Medicine Factory	150	0
Guangzhou Baiyunshan Chinese Medicine Factory	135	0
Guangzhou Baiyunshan Medical Technology Development Company Limited	640	0
Guangzhou No.10 Pharmaceutical Factory	0	656
	66,561	6,676

All the above purchases are either based on the price as approved by the State or are based on the pricing method as set in accordance with the regulation of the State.

(3) Sale of goods

Name	Six months ended 30th June 2002	<i>Unit: Rmb '000</i> Six months ended 30th June 2001
Guangzhou Guanghua Pharmaceutical Company Limited	391	165
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	7,827	0
Guangzhou Pharmaceutical Goods and Supply Company	357	443
Guangzhou Qiaoguang Pharmaceutical Factory	16,491	5,435
Guangzhou Tianxi Pharmaceutical Company Limited	3,470	1,445
Guangzhou Mingxing Pharmaceutical Factory	2,650	0
Guangzhou Hejigong Factory	224	25
Guangzhou Pharmaceutical Economic Development Company	1,414	0
Guangzhou Sanitation Production Factory	0	998
	32,824	8,511

All the above sales are either based on the price as approved by the State or are based on the pricing method as set in accordance with the regulation of the State.

IX Related Party Relationships & Transactions (continued)

4. Related party transactions (continued)

(4) Receivables and payables

	Closing balance	<i>Unit: Rmb '000</i> Beginning balance
Receivables:		
Guangzhou Guanghua Pharmaceutical Company Limited	248	0
Guangzhou Pharmaceutical Goods and Supply Company	193	0
Guangzhou Qiaoguang Pharmaceutical Factory	13,233	2,571
Guangzhou Mingxing Pharmaceutical Factory	263	0
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.	10,263	1,027
Guangzhou Tianxi Pharmaceutical Company Limited	883	1,273
Payables:		
Guangzhou Guanghua Pharmaceutical Company Limited	718	1,624
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.	365	109
Guangzhou Qiaoguang Pharmaceutical Factory	198	718
Guangzhou Mingxing Pharmaceutical Factory	633	88
Guangzhou Hejigong Factory	103	91
Guangzhou Sanitation Production Factory	195	252
Guangzhou Huanan Medical Apparatus Company Limited	38	0
Guangzhou Pharmaceutical Goods and Supply Company	434	5
Other receivables:		
Hong Kong Baolian Development Company Limited	5	3,002
Guangdong Xinhua Health Drinks Company Limited	3,550	0
Guangzhou Pharmaceutical Holdings Company Limited	6,441	6,706
Other payables:		
Guangzhou Pharmaceutical Holdings Company Limited	10,582	25,704

(5) Provision or receipt of services

	Note	Six months ended 30th June 2002	<i>Unit: Rmb '000</i> Six months ended 30th June 2001
Service fee on staff quarters	1	164	136
Welfare facilities	2	364	177
		528	313

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.

IX Related Party Relationships & Transactions (continued)

4. Related party transactions (continued)

(6) 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 Rmb1,321,000 for the period (2001: Rmb270,000)

(7) 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 Rmb3,140,000 for the period. (2001: Rmb183,000)

(8) 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.

X Contingent events

Up to 30 June 2002, there are no material contingent events which should be disclosed.

XI Commitments

Up to 30 June 2002, there are capital commitment amounting to Rmb242,875,000 (2001: Rmb153,034,000) and lease commitment amounting to Rmb64,277,000 (2001: Rmb19,353,000).

XII Non-adjusting events occurring after the balance sheet date

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

XIII Debt restructuring events

Up to 30 June 2002, there are no debt restructuring events in the Group.

XIV Non-monetary transactions

Up to 30 June 2002, there are no non-monetary transactions in the Group.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared in accordance with HK GAAP)

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Note	Unaudited	
		Six months ended 30th June 2002	2001
		Rmb'000	Rmb'000
Turnover	2	3,000,883	2,644,971
Cost of sales		(2,316,922)	(2,034,005)
Gross profit		683,961	610,966
Other revenues		28,737	32,657
Distribution costs, administrative and other operating expenses		(524,912)	(516,821)
Operating profit	3	187,786	126,802
Finance costs		(13,640)	(18,843)
Share of profits less losses of			
Jointly controlled entities		(339)	(666)
Associated companies		203	286
Profit before taxation		174,010	107,579
Taxation	5	(69,254)	(54,194)
Profit after taxation		104,756	53,385
Minority interests		(8,029)	(1,322)
Profit attributable to shareholders		96,727	52,063
Transfer to capital reserve		(220)	(300)
		96,507	51,763
Dividends	6	48,654	24,327
Earnings per share	7	RMB0.119	RMB0.0645

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared in accordance with HK GAAP)

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

		Unaudited 30th June 2002 Rmb'000	Audited 31st December 2001 Rmb'000
Deferred expenditures		74,240	79,463
Fixed assets and construction in progress	8	1,183,449	1,147,719
Interests in jointly controlled entities		29,304	29,832
Interests in associated companies		3,060	2,912
Investment securities		49,731	48,334
Current assets			
Inventories		665,446	833,328
Trade and other receivables	9	1,043,346	774,597
Trading securities and other investments		77,988	67,988
Bank balances and cash		946,926	893,796
		2,733,706	2,569,709
Current liabilities			
Trade and other payables	10	921,854	874,250
Current portion of long-term bank loans	11	30,000	45,000
Taxation payable		52,788	28,911
Short-term bank loans		442,940	387,680
		1,447,582	1,335,841
Net current assets		1,286,124	1,233,868
Total assets less current liabilities		2,625,908	2,542,128
Financed by:			
Share capital		810,900	810,900
Reserves		1,472,526	1,471,577
Retained earnings		173,806	77,299
2001 proposed final dividend		—	48,654
Shareholders' funds		2,457,232	2,408,430
Minority interests		126,676	123,698
Long-term bank loans	11	42,000	10,000
		2,625,908	2,542,128

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with HK GAAP)

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Unaudited	
	Six months ended 30th June	
	2002	2001
	Rmb'000	Rmb'000
Net cash inflow from operating activities	<u>126,544</u>	115,881
Net cash used in investing activities	<u>(103,350)</u>	(51,815)
Net cash inflow from financing activities	<u>29,936</u>	590,609
Increase in cash and cash equivalents	53,130	654,675
Cash and cash equivalents at 1st January	<u>893,796</u>	488,333
Cash and cash equivalents at 30th June	<u>946,926</u>	<u>1,143,008</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u>946,926</u>	<u>1,143,008</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with HK GAAP)

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Unaudited							
	Surplus reserves							
	Share capital	Share premium	Capital reserve	Statutory			Retained earnings	Total
				surplus reserve	public welfare fund	Discretionary surplus reserve		
Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	
At 1st January 2002	810,900	780,405	440,151	120,402	92,758	37,861	125,953	2,408,430
Profit for the period	—	—	—	—	—	—	96,727	96,727
Transfers from retained earnings	—	—	220	—	—	—	(220)	—
Dividends	—	—	—	—	—	—	(48,654)	(48,654)
Reversal of overprovision of share issue expenses	—	729	—	—	—	—	—	729
At 30th June 2002	<u>810,900</u>	<u>781,134</u>	<u>440,371</u>	<u>120,402</u>	<u>92,758</u>	<u>37,861</u>	<u>173,806</u>	<u>2,457,232</u>

	Unaudited							
	Surplus reserves							
	Share capital	Share premium	Capital reserve	Statutory			Retained earnings	Total
				surplus reserve	public welfare fund	Discretionary surplus reserve		
Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	
At 1st January 2001	732,900	120,333	437,278	102,762	68,211	23,101	114,232	1,598,817
Profit for the period	—	—	—	—	—	—	52,063	52,063
Transfers from retained earnings	—	—	300	—	—	—	(300)	—
Transfers to retained earnings	—	—	—	(649)	(6,600)	(5,721)	12,970	—
Dividends	—	—	—	—	—	—	(24,327)	(24,327)
Issue of shares	78,000	686,400	—	—	—	—	—	764,400
Share issue expenses	—	(26,328)	—	—	—	—	—	(26,328)
At 30th June 2001	<u>810,900</u>	<u>780,405</u>	<u>437,578</u>	<u>102,113</u>	<u>61,611</u>	<u>17,380</u>	<u>154,638</u>	<u>2,364,625</u>

NOTES TO THE CONDENSED ACCOUNTS

(Prepared in accordance with HK GAAP)

1 Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 15 (revised):	Cash flow statement
SSAP 25 (revised):	Interim financial reporting
SSAP 34:	Employee benefits

Except for the employee medical insurance benefit as set out in note 4 to the condensed accounts, which impact to the Group is still under assessment, the adoption of the above new SSAPs has no material impact on the preparation of these condensed accounts.

2 Segment information

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

NOTES TO THE CONDENSED ACCOUNTS (continued)

(Prepared in accordance with HK GAAP)

2 Segment information (continued)

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

	6 months ended 30th June 2002					Group <i>Rmb'000</i>
	Manufacturing <i>Rmb'000</i>	Wholesale <i>Rmb'000</i>	Retail <i>Rmb'000</i>	Import and export <i>Rmb'000</i>	Elimination <i>Rmb'000</i>	
Turnover						
External	929,307	1,852,312	161,940	57,324	—	3,000,883
Internal	28,188	131,899	—	—	(160,087)	—
Total	957,495	1,984,211	161,940	57,324	(160,087)	3,000,883
Segment results	159,673	40,669	5,020	844	(9,717)	196,489
Unallocated costs						(8,703)
Operating profit						187,786
Finance costs						(13,640)
Share of profits less losses of						
Jointly controlled entities	(339)					(339)
Associated companies	203					203
Profit before taxation						174,010
Taxation						(69,254)
Minority interests						(8,029)
Profit attributable to shareholders						96,727

NOTES TO THE CONDENSED ACCOUNTS (continued)

(Prepared in accordance with HK GAAP)

2 Segment information (continued)

	6 months ended 30th June 2001					Group Rmb'000
	Manufacturing Rmb'000	Wholesale Rmb'000	Retail Rmb'000	Import and export Rmb'000	Elimination Rmb'000	
Turnover						
External	841,457	1,588,581	173,503	41,430	—	2,644,971
Internal	15,504	299,509	—	—	(315,013)	—
Total	<u>856,961</u>	<u>1,888,090</u>	<u>173,503</u>	<u>41,430</u>	<u>(315,013)</u>	<u>2,644,971</u>
Segment results	<u>93,271</u>	<u>30,703</u>	<u>8,596</u>	<u>1,119</u>	<u>(3,743)</u>	129,946
Unallocated costs						(3,144)
Operating profit						126,802
Finance costs						(18,843)
Share of profits less losses of						
Jointly controlled entities	(666)					(666)
Associated companies	286					286
Profit before taxation						107,579
Taxation						(54,194)
Minority interests						(1,322)
Profit attributable to shareholders						<u>52,063</u>

Unallocated costs represent corporate expenses.

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

NOTES TO THE CONDENSED ACCOUNTS (continued)

(Prepared in accordance with HK GAAP)

3 Operating profit

	6 months ended 30th June	
	2002	2001
	Rmb'000	<i>Rmb'000</i>
Operating profit is stated after crediting and charging the following:		
<u>Crediting:</u>		
Reversal of write - down of inventories	710	<u>—</u>
<u>Charging:</u>		
Depreciation and amortisation of fixed assets	42,980	34,296
Impairment of fixed assets and construction in progress	9,382	50,277
Loss on disposal of fixed assets	1,214	74
	<u>1,214</u>	<u>74</u>

4 Staff costs

	6 months ended 30th June	
	2002	2001
	Rmb'000	<i>Rmb'000</i>
Wages and salaries	207,655	179,871
Social security costs	10,581	10,953
Pension costs - defined contribution plan	23,772	19,940
Post employment medical benefit (Note)	2,265	7,761
	<u>244,273</u>	<u>218,525</u>

Note

The Guangzhou Municipal Government has issued a regulation "Measures Concerning Employee Medical Insurance In Guangzhou" on 1st November 2001. According to the pronouncement, the Group is required to acquire medical insurance for its existing and retired employees as from 1st December 2001.

Management is assessing the financial impact of such employee medical insurance to the Group.

NOTES TO THE CONDENSED ACCOUNTS (continued)

(Prepared in accordance with HK GAAP)

5 Taxation

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

	6 months ended 30th June	
	2002	2001
	Rmb'000	Rmb'000
PRC enterprise income tax	69,199	54,117
Share of taxation attributable to associated companies	55	77
	<u>69,254</u>	<u>54,194</u>

The PRC enterprise income tax has been provided at the rate of 33% (2001: 33%) on the estimated assessable profit for the period.

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

There is no such refund for the income tax in the year 2002.

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.

6 Dividends

	6 months ended 30th June	
	2002	2001
	Rmb'000	Rmb'000
2001 final dividend, paid, of Rmb 0.06 (2000 final dividend, paid, of Rmb 0.03) per share (Note)	<u>48,654</u>	<u>24,327</u>

Note

At a meeting held on 4th April 2002 the directors proposed a final dividend of Rmb0.06 per share for the year ended 31st December 2001, which was paid in June 2002 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2002.

7 Earnings per share

The calculation of earnings per share for the six months ended 30th June 2002 is based on the net profit of Rmb96,727,000 (2001: Rmb52,063,000) and the weighted average number of 810,900,000 shares (2001: 807,021,547 shares) in issue.

8 Fixed assets and construction in progress

	Rmb'000
Six months ended 30th June 2002	
Opening net book amount	1,147,719
Additions	90,830
Disposals	(2,738)
Depreciation and amortisation	(42,980)
Impairment	(9,382)
Closing net book amount	<u>1,183,449</u>

NOTES TO THE CONDENSED ACCOUNTS (continued)

(Prepared in accordance with HK GAAP)

9 Trade and other receivables

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

	30th June 2002 Rmb'000	31st December 2001 Rmb'000
Within 6 months	772,452	480,276
6 months to 1 year	7,623	33,535
1 year to 2 years	—	6,866
	780,075	520,677

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

10 Trade and other payables

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

	30th June 2002 Rmb'000	31st December 2001 Rmb'000
Less than one year	545,371	519,385
More than one year but not exceeding two years	25,677	15,649
More than two years but not exceeding three years	11,478	26,225
More than three years	19,292	—
	601,818	561,259

11 Long-term bank loans

	30th June 2002 Rmb'000	31st December 2001 Rmb'000
Bank loans, secured	72,000	55,000
Current portion of long-term bank loans	(30,000)	(45,000)
	42,000	10,000

The analysis of the above is as follows:—

Bank loans, repayable:		
Within one year	30,000	45,000
In the second year	10,000	10,000
In the third to fifth year	32,000	—
	72,000	55,000

NOTES TO THE CONDENSED ACCOUNTS (continued)

(Prepared in accordance with HK GAAP)

12 Commitments

(a) Capital commitments for fixed assets

	30th June 2002 Rmb'000	31st December 2001 Rmb'000
Contracted but not provided for	26,753	76,174
Authorised but not contracted for	216,122	76,860
	242,875	153,034

(b) Commitments under operating leases

At 30th June 2002 the Group had total future aggregate minimum lease payments as follows:

	30th June 2002 Rmb'000	31st December 2001 Rmb'000
Non cancellable operating lease in respect of land and buildings:		
Within one year	19,353	22,756
In the second to fifth year inclusive	36,228	32,357
After the fifth year	8,696	6,488
	64,277	61,601

13 Related party transactions

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

		6 months ended 30th June	
	Note	2002 Rmb'000	2001 Rmb'000
Ultimate holding company			
Licence fee expense	a	3,140	2,745
Service fee expense	b	364	681
Welfare facilities fee expense	c	164	207
Rental expense	d	1,321	1,451
Jointly controlled entities	e		
Sales of semi-finished goods		400	556
Purchases of finished goods and raw materials		—	268
Associated company	e		
Sales of finished goods		829	1,254
Fellow subsidiaries			
Sales of finished goods and raw materials	e	29,166	10,752
Purchases of finished goods and raw materials	e	66,699	6,677
Purchase of a building	f	39,240	31,700

NOTES TO THE CONDENSED ACCOUNTS (continued)

(Prepared in accordance with HK GAAP)

13 Related party transactions (continued)

- (a) Pursuant to the Trademark Licence Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("GZPHL") on 1st September 1997, GZPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a licence fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries.
- (b) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1st September 1997 and supplemented by a notice dated 31st December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31st December 2007.
- (c) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1st 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 31st December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31st December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 1st 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 be expired on 31st August 2003.
- (e) 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.
- (f) During the period, Guangzhou Pharmaceutical Corporation Limited, a subsidiary of the Company purchased a building from a fellow subsidiary of the Company. Total consideration is Rmb39,239,980 and Rmb31,700,000 was paid in year 2001 as deposit for the purchase.

14 Subsequent event

On 16th July 2002, GZ Baidi entered into an agreement to purchase land use rights, buildings and related facilities from a fellow subsidiary of the Company. Total consideration is Rmb29,831,000.