

Auditor's Report

(English version translated for reference only)
Our reference: (2004) YC 2297)

To the Shareholders of Guangzhou Pharmaceutical Company Limited

We have audited the balance sheet of the Company and the Group as at 31 December 2003 and the related profit and loss account, profit appropriation statement and cash flow statement for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with China's Independent Auditing Standards. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the accounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred above conform with the Accounting Standards for Business Enterprise and the Accounting System for Business Enterprise promulgated by the Central Government of the People's Republic of China and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2003 and the results of their operations and their cash flows for the year then ended.

Guangzhou Yangcheng Certified Public Accountants Co., Ltd

**Certified Public Accountant
Huang Weicheng**

**Certified Public Accountant
Zhang Ning**

Guangzhou, PRC
26 March 2004

Consolidated Balance Sheet

As at 31 December 2003

Form 1-1
In Rmb Yuan

	Notes	31 December 2003	31 December 2002
ASSETS			
Current Assets			
Cash	7-1	816,439,041.14	1,019,903,178.95
Short-term investments	7-2	49,499,310.37	61,194,385.90
Notes receivable	7-3	52,280,755.19	180,000.00
Dividends receivable	7-4	6,316,510.00	5,474,684.92
Interest receivable		—	—
Accounts receivable	7-5	878,361,678.85	716,482,532.62
Other receivables	7-6	130,980,738.37	122,975,499.77
Advances to suppliers	7-7	120,102,331.41	80,700,451.50
Subsidy receivable	7-8	10,325,834.50	10,064,712.63
Inventories	7-9	1,067,439,529.10	848,519,074.31
Prepaid expenses	7-10	91,300,355.06	81,727,619.19
Long-term investments maturing within one year		—	—
Other current assets		—	—
Total current assets		3,223,046,083.99	2,947,222,139.79
Long-Term Investments			
Long-term equity investments	7-11	74,867,192.97	86,789,969.55
Long-term debt investments		—	—
Total long-term investments		74,867,192.97	86,789,969.55
Fixed Assets			
Fixed assets - cost	7-12	1,505,442,749.56	1,247,479,589.50
Less: Accumulated depreciation	7-12	498,586,610.77	442,207,260.76
Fixed assets - net amount		1,006,856,138.79	805,272,328.74
Less: Fixed assets impairment provision	7-12	25,786,824.47	29,564,343.45
Fixed assets - net book value		981,069,314.32	775,707,985.29
Construction supplies		—	—
Construction in progress	7-13	305,928,588.83	236,616,437.79
Fixed assets pending disposal		—	—
Total fixed assets		1,286,997,903.15	1,012,324,423.08
Intangible and Other Assets			
Intangible assets	7-14	93,715,205.21	93,768,566.32
Long-term prepaid expenses	7-15	28,413,060.66	33,089,392.45
Other long-term assets		—	—
Total intangible and other assets		122,128,265.87	126,857,958.77
DEFERRED TAXES			
Deferred tax debits		—	—
TOTAL ASSETS		4,707,039,445.98	4,173,194,491.19

Consolidated Balance Sheet

As at 31 December 2003

Form 1-2
In Rmb Yuan

	Notes	31 December 2003	31 December 2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans	7-16	664,230,000.00	555,340,000.00
Notes payable	7-17	212,533,538.69	78,178,584.40
Accounts payable	7-18	644,880,577.38	580,755,642.12
Advances from customers	7-19	34,182,508.08	46,266,805.26
Accrued payroll		77,634,473.67	81,003,162.42
Welfare benefits payable		56,334,037.21	57,057,212.15
Dividends payable	7-20	11,178.03	470,722.36
Taxes payable	7-21	21,605,390.47	48,773,628.89
Other levies payable	7-22	2,651,595.11	3,954,085.03
Other payables	7-23	199,619,096.28	124,069,695.90
Accrued expenses	7-24	4,456,292.55	4,625,106.82
Provisions for foreseeable liabilities		—	—
Portion of long-term liabilities due within one year	7-25	30,000,000.00	—
Other current liabilities		—	—
Total current liabilities		1,948,138,687.47	1,580,494,645.35
Long-Term Liabilities			
Long-term loans	7-26	107,180,000.00	89,680,000.00
Debentures payable		—	—
Payables due after one year	7-27	3,616,783.17	3,619,897.61
Government grants payable	7-28	46,893,897.48	22,893,288.18
Other long-term payables		5,000,000.00	5,000,000.00
Total long-term liabilities		162,690,680.65	121,193,185.79
Deferred taxes:			
Deferred tax credits		—	—
Total liabilities		2,110,829,368.12	1,701,687,831.14
Minority interest		166,733,695.45	135,923,981.38
Shareholders' equity:			
Share capital	7-29	810,900,000.00	810,900,000.00
Less: investment returned		—	—
Net share capital		810,900,000.00	810,900,000.00
Capital surplus	7-30	1,119,572,202.41	1,114,334,224.64
Surplus reserve	7-31	416,445,683.07	336,429,845.16
Including: statutory public welfare fund	7-31	134,458,560.41	109,728,912.38
Retained earnings	7-32	82,558,496.93	73,918,608.87
Including: cash dividend		48,654,000.00	48,654,000.00
Total Shareholders' equity		2,429,476,382.41	2,335,582,678.67
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,707,039,445.98	4,173,194,491.19

Consolidated Profit and Loss Account

For the Year ended 31 December 2003

Form 2-1
In Rmb Yuan

Item	Notes	2003	2002
I. Revenues from main operations	7-33	6,971,963,246.21	5,943,823,330.51
Less: Cost of main operations	7-34	5,575,381,494.57	4,630,442,992.22
Tax and levies on main operations	7-35	23,867,921.27	23,971,060.12
II. Profit from main operations		1,372,713,830.37	1,289,409,278.17
Add: Profit from other operations	7-36	43,331,577.75	31,799,024.38
Less: Selling expenses		480,112,918.89	418,080,004.45
General and administrative expenses		617,672,250.86	557,186,117.00
Financial expenses	7-37	22,200,163.99	15,329,165.53
III. Operating profit		296,060,074.38	330,613,015.57
Add: Income from investment	7-38	2,714,764.17	(16,898,852.55)
Subsidy income		276,208.28	314,068.00
Non-operating income	7-39	2,616,643.99	2,858,663.60
Less: Non-operating expenses	7-40	16,894,247.44	29,380,807.14
IV. Total profit		284,773,443.38	287,506,087.48
Less: Income tax		134,425,044.95	113,122,444.16
Less: Minority interest		10,552,991.99	15,905,895.38
V. Net profit		139,795,406.44	158,477,747.94

Supplementary information:

1. Profit from sale, disposal of a business unit or investments	969,762.78	—
2. Loss due to natural disaster	—	—
3. Increase/(decrease) in total profit as a result of changes in accounting policies	—	—
4. Increase/(decrease) in total profit as a result of changes in accounting estimates	—	—
5. Losses from debt restructuring	—	—
6. Other	—	—

Consolidated Profit and Loss Account

(Supplementary Information)
For the Year ended 31 December 2003

Form 2-2
In Rmb Yuan

	2003				2002			
	Return on net assets		Earnings per share		Return on net assets		Earning per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	56.50%	57.65%	1.69	1.69	55.21%	56.64%	1.59	1.59
Profit from operations	12.19%	12.43%	0.37	0.37	14.16%	14.52%	0.41	0.41
Net profit for the year	5.75%	5.87%	0.17	0.17	6.79%	6.96%	0.20	0.20
Net profit after deduction of extraordinary items	5.95%	6.06%	0.18	0.18	6.95%	7.12%	0.20	0.20

Consolidated Profit Appropriation Statement

For the Year ended 31 December 2003

Form 3
In Rmb Yuan

Item	Notes	2003	2002
1. Net profit		139,795,406.44	158,477,747.94
Add: Retained earnings at beginning of year	7-32	74,594,593.92	49,665,627.95
Add: Transfer from others		—	3,972,143.34
2. Distributable profit		214,390,000.36	212,115,519.23
Less: Transfer to statutory surplus reserve	7-31	32,076,133.21	34,419,291.99
Less: Transfer to public welfare fund	7-31	24,892,774.22	26,812,654.95
Less: Transfer to staff bonus and welfare fund		2,507,077.69	2,144,451.47
Less: Transfer to reserve fund		940,154.13	804,169.31
Less: Enterprise expansion fund		940,154.13	804,169.31
Less: Profit return on investments		—	—
3. Profit distributable to shareholders		153,033,706.98	147,130,782.20
Less: Dividend for preferred shares		—	—
Less: Transfer to discretionary surplus reserves	7-31	21,821,210.05	24,558,173.33
Less: Dividend for ordinary shares	7-32	48,654,000.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital		—	—
4. Retained earnings at end of year		82,558,496.93	73,918,608.87

Consolidated Cash Flow Statement

For the Year ended 31 December 2003

	Notes	Form 4-1 In Rmb Yuan
I. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services		7,949,850,555.19
Refund of tax and levies		7,702,554.51
Other cash received relating to operating activities	7-42	76,171,204.49
Sub-total of cash inflows		8,033,724,314.19
Cash paid for goods and services		6,463,193,346.47
Cash paid to and on behalf of employees		491,208,618.60
Payments of all types of taxes		439,393,768.03
Other cash paid relating to operating activities	7-43	646,758,977.06
Sub-total of cash outflows		8,040,554,710.16
Net cash flows from operating activities		(6,830,395.98)
II. Cash flows from investing activities:		
Cash received from disposal of investments		24,138,436.81
Including: cash received from disposal of subsidiaries		3,077,200.00
Cash received from returns on investments		4,900,136.83
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,777,805.04
Other cash received relating to investing activities		—
Sub-total of cash inflows		31,816,378.68
Cash paid to acquire fixed assets, intangible assets and other long-term assets		367,176,513.22
Cash paid to acquire investments		9,825,000.00
Other cash paid relating to investing activities		—
Sub-total of cash outflows		377,001,513.22
Net cash flows from investing activities		(345,185,134.54)
III. Cash flows from financing activities		
Cash received from capital contribution		—
Cash received from capital contribution by minority shareholders		7,650,000.00
Cash received from borrowings		678,230,000.00
Other proceeds relating to financing activities		107,687,857.13
Sub-total of cash inflows		793,567,857.13
Cash repayments of amounts borrowed		521,840,000.00
Cash payments for interest expenses and distribution of dividends or profits		81,376,182.62
Cash payments for dividends to minority shareholders		9,105,010.88
Other cash payments relating to financing activities		30,422,628.06
Sub-total of cash outflows		642,743,821.56
Net cash flows from financing activities		150,824,035.57
IV. Effect of foreign exchange rate changes on cash		153,235.76
V. Net decrease in cash and cash equivalents		(201,038,259.19)

Consolidated Cash Flow Statement

For the Year ended 31 December 2003

Form 4-2
In Rmb Yuan

Supplemental Information

1. Reconciliation of net profit to cash flows from operating activities:	
Net profit	139,795,406.44
Minority interest	10,552,991.99
Add: Provision for asset impairment	32,743,975.65
Depreciation of fixed assets	88,008,290.55
Amortization of intangible assets	3,684,535.13
Amortization of long-term prepaid expenses	10,506,483.88
Decrease in prepaid expenses (less: increase)	(9,572,735.87)
Increase in accrued expenses (less: decrease)	(168,814.27)
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains)	1,311,332.19
Losses on scrapping of fixed assets	3,606,761.89
Financial expenses (less: gains)	32,678,736.34
Losses arising from investments (less: gains)	(2,714,764.17)
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	(218,920,454.79)
Decrease in operating receivables (less: increase)	(292,781,383.90)
Increase in operating payables (less: decrease)	190,126,875.89
Others	4,312,367.07
Net cash flows from operating activities	<u>(6,830,395.98)</u>
2. Investing and financing activities that do not involve cash receipts or payments	
Conversion of debt into capital	—
Reclassification of convertible bonds expiring within one year as current liabilities	—
Fixed assets acquired under finance lease	—
3. Net decrease in cash and cash equivalents:	—
Cash at the end of period	816,439,041.14
Less: Cash at the beginning of the period	1,019,903,178.95
Add: Cash equivalents at the end of the period	—
Less: Cash equivalents at the beginning of period	—
Net decrease in cash and cash equivalents	<u>(203,464,137.81)</u>

Note: There is a difference of Rmb2,425,878.62 of the "Net decrease in cash and cash equivalents" between the Consolidated Cash Flow Statement and which in the supplemental information, which is due to the change in consolidation scope (please refer to Note 4 for details).

Balance Sheet

As at 31 December 2003

Form 5-1
In Rmb Yuan

ASSETS	Notes	31 December 2003	31 December 2002
CURRENT ASSETS			
Cash		231,542,044.04	204,624,119.72
Short-term investments		49,499,310.37	61,194,385.90
Notes receivable		—	—
Dividends receivable		6,316,510.00	5,106,895.00
Interest receivable		—	—
Accounts receivable		—	—
Other receivables	8-1	319,285,854.82	285,792,292.21
Advances to suppliers		—	—
Subsidy receivable		—	—
Inventories		—	—
Prepaid expenses		—	—
Long-term investments maturing within one year		—	—
Other current assets		—	—
Total current assets		606,643,719.23	556,717,692.83
Long-term investments:			
Long-term equity investments	8-2	1,853,732,823.78	1,772,278,585.65
Long-term debt investments		—	—
Total long-term investments		1,853,732,823.78	1,772,278,585.65
Fixed Assets			
Fixed assets - cost		37,407,029.02	31,605,410.76
Less: Accumulated depreciation		10,215,684.50	7,279,372.15
Fixed assets - net amount		27,191,344.52	24,326,038.61
Less: Fixed assets impairment provision		7,109,752.25	7,109,752.25
Fixed assets - net book value		20,081,592.27	17,216,286.36
Construction supplies		—	—
Construction in progress		—	4,330,352.17
Fixed assets pending disposal		—	—
Total fixed assets		20,081,592.27	21,546,638.53
Intangible and Other Assets			
Intangible assets		—	—
Long-term prepaid expenses		1,997,842.14	2,404,510.41
Other long-term assets		—	—
Total intangible and other assets		1,997,842.14	2,404,510.41
Deferred taxes			
Deferred tax debits		—	—
TOTAL ASSETS		2,482,455,977.42	2,352,947,427.42

Balance Sheet

As at 31 December 2003

Form 5-2
In Rmb Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2003	31 December 2002
Current liabilities:		
Short-term loans	—	—
Notes payable	—	—
Accounts payable	—	—
Advances from customers	—	—
Accrued payroll	2,485,598.66	2,629,148.66
Welfare benefits payable	3,074,976.99	2,568,305.87
Dividends payable	11,137.00	22,917.14
Taxes payable	716,641.71	408,494.06
Other levies payable	13,161.85	9,880.96
Other payables	40,995,862.85	11,947,614.68
Accrued expenses	2,000,000.00	3,250,000.00
Provisions for foreseeable liabilities	—	—
Portion of long-term liabilities due within one year	—	—
Other current liabilities	—	—
Total current liabilities	49,297,379.06	20,836,361.37
Long-Term Liabilities		
Long-term loans	—	—
Debentures payable	—	—
Payables due after one year	—	—
Government grants payable	1,000,000.00	—
Other long-term payables	—	—
Total long-term liabilities	1,000,000.00	—
Deferred taxes		
Deferred tax credits	—	—
Total liabilities	50,297,379.06	20,836,361.37
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	1,119,405,462.95	1,114,220,189.56
Surplus reserve	145,803,875.54	124,276,436.70
Including: statutory public welfare fund	59,176,788.16	52,000,975.21
Retained earnings	356,049,259.87	282,714,439.79
Including: cash dividend	48,654,000.00	48,654,000.00
Total shareholders' equity	2,432,158,598.36	2,332,111,066.05
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,482,455,977.42	2,352,947,427.42

Profit and Loss Account

For the Year ended 31 December 2003

Form 6
In Rmb Yuan

Item	Notes	2003	2002
I. Revenues from main operations		—	—
Less: Cost of main operations		—	—
Tax and levies on main operations		—	—
II. Profit from main operations		—	—
Add: Profit from other operations		4,267,200.40	3,299,534.99
Less: Selling expenses		—	—
General and administrative expenses		31,534,143.01	27,642,298.17
Financial expenses		(4,365,400.55)	(5,006,323.96)
III. Operating profit		(22,901,542.06)	(19,336,439.22)
Add: Income from investment	8-3	166,528,032.74	178,636,602.10
Subsidy income		—	—
Non-operating income		725.46	216,632.01
Less: Non-operating expenses		110,957.22	7,141,463.06
IV. Total profit		143,516,258.92	152,375,331.83
Less: Income tax		—	581,635.02
V. Net profit		143,516,258.92	151,793,696.81

Profit Appropriation Statement

For the Year ended 31 December 2003

Form 7
In Rmb Yuan

Item	2003	2002
1. Net profit	143,516,258.92	151,793,696.81
Add: Retained earnings at beginning of year	282,714,439.79	201,269,113.29
Add: Transfer from others	—	1,074,684.21
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2. Distributable profit	426,230,698.71	354,137,494.31
Less: Transfer to statutory surplus reserve	14,351,625.89	15,179,369.68
Less: Transfer to public welfare fund	7,175,812.95	7,589,684.84
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returns on investments	—	—
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3. Profit distributable to shareholders	404,703,259.87	331,368,439.79
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	48,654,000.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—
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4. Retained earnings at end of year	356,049,259.87	282,714,439.79
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Cash Flow Statement

For the Year ended 31 December 2003

Form 8-1
In Rmb Yuan

I. Cash flows from operating activities:	
Cash received from sale of goods or rendering of services	—
Refund of tax and levies	—
Other cash received relating to operating activities	6,267,728.25
Sub-total of cash inflows	6,267,728.25
Cash paid for goods and services	—
Cash paid to and on behalf of employees	10,467,841.34
Payments of all types of taxes	233,370.03
Other cash paid relating to operating activities	8,449,750.42
Sub-total of cash outflows	19,150,961.79
Net cash flows from operating activities	(12,883,233.54)
II. Cash flows from investing activities:	
Cash received from disposal of investments	20,000,000.00
Cash received from returns on investments	109,477,064.46
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,600.00
Other cash received relating to investing activities	225,941,418.07
Sub-total of cash inflows	355,421,082.53
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,824,350.35
Cash paid to acquire investments	29,775,000.00
Other cash paid relating to investing activities	235,496,743.73
Sub-total of cash outflows	267,096,094.08
Net cash flows from investing activities	88,324,988.45
III. Cash flows from financing activities	
Cash received from capital contribution	—
Cash received from borrowings	—
Other proceeds relating to financing activities	—
Sub-total of cash inflows	—
Cash repayments of amounts borrowed	—
Cash payments for interest expenses and distribution of dividends or profits	48,677,066.35
Other cash payments relating to financing activities	—
Subtotal of cash outflows	48,677,066.35
Net cash flows from financing activities	(48,677,066.35)
IV. Effect of foreign exchange rate changes on cash	153,235.76
V. Net increase in cash and cash equivalents	26,917,924.32

Cash Flow Statement

For the Year ended 31 December 2003

Form 8-2
In Rmb Yuan

Supplemental Information

1. Reconciliation of net profit to cash flows from operating activities:	
Net profit	143,516,258.92
Add: Provision for asset impairment	100,408.71
Depreciation of fixed assets	3,137,038.85
Amortization of intangible assets	—
Amortization of long-term prepaid expenses	1,186,247.13
Decrease in prepaid expenses (less: increase)	—
Increase in accrued expenses (less: decrease)	(1,250,000.00)
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains)	—
Losses on scrapping of fixed assets	43,703.78
Financial expenses (less: gains)	153,235.76
Losses arising from investments (less: gains)	(166,528,032.74)
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	—
Decrease in operating receivables (less: increase)	5,225,701.10
Increase in operating payables (less: decrease)	1,532,204.95
Others	—
Net cash flows from operating activities	(12,883,233.54)
2. Investing and financing activities that do not involve cash receipts or payments	
Conversion of debt into capital	—
Reclassification of convertible bonds expiring within one year as current liabilities	—
Fixed assets acquired under finance lease	—
3. Net increase in cash and cash equivalents:	
Cash at the end of period	231,542,044.04
Less: Cash at the beginning of the period	204,624,119.72
Add: Cash equivalents at the end of the period	—
Less: Cash equivalents at the beginning of period	—
Net increase in cash and cash equivalents	26,917,924.32

Movement of Assets Impairment

For the Year ended 31 December 2003

Form 9
In Rmb Yuan

Item	1 January 2003	Additions	Reversals			31 December 2003
			Recovery of assets value	Written off	Sub-total	
1. Total provision						
for bad debts	45,769,189.55	28,802,542.77	—	9,089,155.46	9,089,155.46	65,482,576.86
Including: Accounts receivable	38,791,512.37	19,781,958.13	—	3,025,977.87	3,025,977.87	55,547,492.63
Other receivables	6,977,677.18	9,020,584.64	—	6,063,177.59	6,063,177.59	9,935,084.23
2. Total provision						
for short-term investments	2,395,536.76	1,677,300.00	2,366,536.76	—	2,366,536.76	1,706,300.00
Including: Share investment	920,003.76	—	920,003.76	—	920,003.76	—
Debt investment	—	1,677,300.00	—	—	—	1,677,300.00
Fund investment	1,475,533.00	—	1,446,533.00	—	1,446,533.00	29,000.00
3. Total provision						
for inventories	689,096.81	311,626.12	—	140,988.74	140,988.74	859,734.19
Including: Merchandise	390,344.03	311,626.12	—	140,988.74	140,988.74	560,981.41
Raw materials	298,752.78	—	—	—	—	298,752.78
4. Total provision for						
long-term investment	32,555,294.68	522,553.95	1,123,370.42	30,171,779.81	31,295,150.23	1,782,698.40
Including: Long-term equity						
investment	32,555,294.68	522,553.95	1,123,370.42	30,171,779.81	31,295,150.23	1,782,698.40
Long-term debt investment	—	—	—	—	—	—
5. Total provision for fixed assets	29,564,343.45	1,183,270.00	—	4,960,788.98	4,960,788.98	25,786,824.47
Including: Land and buildings	21,648,669.49	—	—	3,508,844.99	3,508,844.99	18,139,824.50
Machinery and equipment	7,505,296.38	1,157,064.00	—	1,422,947.96	1,422,947.96	7,239,412.42
6. Provision for intangible assets	966,151.46	—	—	—	—	966,151.46
Including: Patent	—	—	—	—	—	—
Trademark	—	—	—	—	—	—
7. Provision for construction						
work in progress	—	80,000.00	—	—	—	80,000.00
8. Provision for loan by trust	—	—	—	—	—	—
9. Total	111,939,612.71	32,577,292.84	3,489,907.18	44,362,712.99	47,852,620.17	96,664,285.38

Notes to the Accounting Statements

1. Company background Information

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 an enterprise legal person business license with the official code of 4401011101830 on 1 September 1997.

Pursuant to the document with ref. TGS [1997] 145 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 of stock listed on The Stock Exchange of Hong Kong Limited in October 1997. Approved by the China Securities Regulatory Committee, the Company issued 78 million A shares on 10 January 2001. The total amount of shares of the Company is RMB810,900,000, including RMB513,000,000 shares owned by the State, representing 63.26% of the total shares, and public shares of RMB297,900,000, representing 36.74% of the total shares.

The Company and its subsidiaries (the “Group”) engage in capital management, investment, development, financing, the development and manufacturing of Chinese patent medicine, the manufacturing of 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 current structure includes seven Chinese patent medicine manufacturing entities, one chemical materials medicine manufacturing entity, two medical research & development entities and three pharmaceutical trading entities.

2. Principal Accounting Policies, Accounting Estimates and Method for Preparation of Consolidated Financial Statements

1. Accounting System

The Group adopts the Accounting Standard for Business Enterprises and the Accounting System for Business Enterprises and the supplementary stipulations.

2. Accounting Period

The Groups accounting year starts on 1 January and ends on 31 December.

3. Recording Currency

The recording currency of the Group is the Renmibi (“RMB”).

4. Basis of Accounting and Measurement Bases

The Group follows the accrual basis of accounting. And assets are recorded at historical cost.

5. Foreign Currency Translation

Foreign currency transactions during the year are translated into Renminbi at the exchange rates 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 prevailing at the balance sheet date. Exchange differences arising from these translations are recorded as financial expenses of the current period.

Notes to the Accounting Statements

6. Cash Equivalents

Cash equivalents refer to short-term and highly liquid, investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Provision for Bad Debts

The Group provides provision for bad debts. The balances will be written off against provision when bad debts recognised.

Bad debts are recognised when:

- A. If the debtor becomes bankrupt or dies, the amount remaining after repayment by liquidation property or legacy, will be the bad debts.
- B. If the debtor does not make repayment for over three years and there is obvious evidence showing that the receivables can not be recalled, the amount remaining will be bad debts upon the approval of the board of directors.

The Group provides provision based on aging of receivables, as approved by the Board. In addition, specific provisions made against balances which may not be collectible, after individual assessment of the financial position, repayment ability etc. of the creditor.

Details of the provision method is as follows:

Aging	Provision for bad debts as a percentage of receivables
Within 1 year	1%
1~2 years	10%
2~3 years	30%
3~4 years	50%
4~5 years	80%
Over 5 years	100%

Debtors comprise accounts receivable and other receivables. The Group provides provision for other receivables excluded inter-company, unreimbursed balances and other receipts on behalf of others.

8. Inventories

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

Inventories are recorded at cost using the perpetual method.

Subsidiaries of the Company are segmented as manufacturing and trading enterprises, which adopt inventory valuation policies detailed as follows:

(1) Manufacturing enterprises:

Raw materials and finished goods are recorded at standard cost. Cost variances are allocated between cost of sold and inventory using reasonable basis. For these enterprises not using standard cost method, raw materials and inventories are recorded using weighted average method or first-in-first-out method.

Low-value consumables and packaging materials are recorded at cost and enter into profit and loss account upon consumption.

Notes to the Accounting Statements

(2) Trading enterprises:

Inventories of wholesale enterprises are stated at cost. Inventories are accounted for using the first-in-first-out method.

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

The Group will examine the status of inventories at each month end. Provisions are made against damaged, obsolete stocks, and those stocks with decreased selling prices. Inventories are presented at lower of cost and net realisable value.

9. Short-term Investments

(1) Short-term investments of the Group are recorded at acquisition cost deducting any cash dividends or interest which have been declared but not received. Cash dividends or interest shall be net 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.

(2) Short-term investments of the Group are measured at the lower of cost and market value. An impairment provision is made against diminution in short-term investment values make when market value is lower than cost.

10. Long-term Equity Investments

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

The cost method shall be applied if the Group holds less than 20% of the voting capital of the investee, or it holds 20% or more of the voting capital of the investee but dose not have significant influence over the investee. The equity method shall be applied if the Group holds 20% or more of the voting capital of the investee, or it holds less than 20% of the voting capital of the investee but has significant influence over the investee. The equity method shall be applied and consolidated accounting statements shall be prepared if the Group holds 50% or more of the voting capital of the investee, or it holds less than 50% of the voting capital of the investee but has significant influence over the investee.

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

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

11. Long-term Debt Investments

Long-term debt investments of the Group are stated at investment cost and investment income is accounted for at cost method.

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

Notes to the Accounting Statements

12. Provision for Long-term Investments

Approved by the board of directors, provision is made against long-term investments if its recoverable amount is lower than its carrying amount, and the decline other than temporary occurred, or operation of the investee deteriorate to such an extent that the decline with persist to the foreseeable future, the carrying amount of such investments will be reduced to its recoverable value.

13. Fixed Assets and Depreciation

Fixed assets include land and 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. Fixed assets are depreciated over their useful lives using straight-life method, taking into account the estimated residual value of 0% to 10%. The annual rates of depreciation are as follows:

Fixed assets category	Depreciation life	Depreciation rate
Land and buildings	15-50 years	1.80%-6.60%
Machinery equipment	4-18 years	5%-24.75%
Vehicles	5-10 years	9%-19.80%
Electric equipment	5-10 years	9%-19.80%
Office equipment	4-8 years	11.25%-24.75%
Renovation of fixed assets	5 years	20%
Other equipment	4-15 years	6%-24.75%

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

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

14. Construction in Progress

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

Notes to the Accounting Statements

15. Intangible Assets and Amortization

Intangible assets, which are mainly land use rights and non-proprietary technologies, are stated at acquisition cost and amortized averagely over their expected useful lives commencing from the month in which they are acquired.

At the end of period intangible assets of the Group are measured at the lower of book value and recoverable amount. If recoverable amount is lower than book value, provision will be made for the difference.

16. Long-term Prepaid Expenses

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

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

17. Borrowing Cost

Borrowing costs relating to operations are expensed when incurred.

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

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

18. Revenue Recognition

Revenue from sales of goods is recognized when goods are dispatched, the title to the goods and its major risks and rewards are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or the entitlement to proceeds is evidenced, and the cost of sale of goods can be measured reliably.

Revenue from rendering of services is recognized upon having rendered service and obtained the payment or payment evidence.

19. Accounting treatment for income tax

The Group 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 ref. [1995] 11 “Temporary regulation of consolidation on financial statements” and CKEZ [1996] 2 “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.

Notes to the Accounting Statements

3. Taxation and Other Additional Taxes

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

1. Turnover tax and other additional taxes

(1) Turnover tax

Taxable item	Tax	Rate
Revenue from sale of products	Value-added tax	17%
Revenue from transfer of materials	Value-added tax	17%
Revenue from rendering services	Business tax	5%
Revenue of rental	Business tax	5%
Revenue of capital employed	Business tax	5%
Revenue from sale 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 turnover tax. Subsidiaries of the Group which are foreign invested enterprises are exempted from city construction tax in accordance with PRC regulations.

(3) Education surcharge

The education surcharge is calculated and paid based on 3% of total turnover tax. Subsidiaries of the Group which are foreign invested enterprises are exempted from education surcharge in accordance with PRC regulations.

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 Qixing Pharmaceutical Co., Ltd., one of the Company’s subsidiary, applies the enterprise income tax rate of 24% and local income tax rate of 3%.

Notes to the Accounting Statements

4. Subsidiaries and Joint Ventures

(1) Major subsidiaries in the consolidation scope of the consolidated financial statements

Name of the Company	Stock capital RMB'000	Invested amount of the Group to its subsidiaries RMB'000	% of equity interest	Principal activities
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	83,280	48,850	58.66	Research & development of medicine and products of health care
Guangzhou Bio-technology Co., Ltd.	70,100	66,500	94.87	Research & development of medicine
Guangzhou Huanye Pharmaceutical Co., Ltd.	6,000	3,580	59.701	Manufacturing chemical material medicine
Guangzhou Xingqun Pharmaceutical Co., Ltd.	77,170	68,670	88.99	Production of Chinese patent medicine
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	161,050	97.016	Production of Chinese patent medicine
Guangzhou Chenliji Pharmaceutical Factory	94,000	94,000	100	Production of Chinese patent medicine
Guangzhou Qixing Pharmaceutical Factory	82,420	82,420	100	Production of Chinese patent medicine
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	86,230	76,230	88.4	Production of Chinese patent medicine
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	65,440	57,440	87.77	Production of Chinese patent medicine
Guangzhou Yangcheng Pharmaceutical Co., Ltd.	106,380	98,380	92.48	Production of Chinese patent medicine
Guangzhou Pharmaceuticals Corporation	222,000	215,330	96.9941	Trading of western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation	69,700	69,700	100	Trading of Chinese patent medicine and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Corporation	15,000	15,000	100	Import and export of medicine

(2) Subsidiaries with over 50% equity interest held by the Group but not included in the consolidation scope are as follows:

The Group holds 80% equity interest in Guangzhou Medicine Commodities Exhibition Store, but does not include it in the consolidation as it commenced its liquidation stage in the current year.

The Group holds 65% equity interest of Guangzhou Chenliji Xingma Health Care Products Co., Ltd., but does not include it in the consolidation as it plans to cease operation.

The Group holds 72% equity interest in Shenzhen Qixing Lanzao Bio-technology Co., Ltd., but does not include it in the consolidation as it commenced its liquidation stage.

Notes to the Accounting Statements

- (3) Guangzhou Pharmaceutical Import & Export Corporation, a subsidiary, used to hold 100% of the interests of Guangzhou Yongxin Medicine Trading Company and assigned 90% of it to an external party in August 2003. The Group has taken the sold subsidiary's related income, cost and profit from the beginning of the reporting period to the assigning date into the current consolidated income statement, while the related assets, liabilities and equities are not considered in the consolidated balance sheet at the period-end.

Financial data of Guangzhou Yongxin Medicine Trading Company are as follows (in RMB'000):

Item	31 December 2002	Equity interests transfer date
Total assets	13,454	1,174
Total liabilities	9,125	(23)
Owner's equity	4,329	1,197
	2002	1 January 2003 to equity interests transfer date
Main operating income	59,085	1,919
Main operating profit	2,236	151
Total profit	657	(250)
Net profit	522	(275)

- (4) Guangzhou Xingqun Pharmaceutical Co., Ltd. and Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. held 41% and 12% respectively of Guangdong Xinghua Health Drink Co., Ltd.. According to the equity interests Transfer Agreement signed by Guangzhou Xingqun Pharmaceutical Co., Ltd., Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. with Nanhai Weimei Food Trading Co., Ltd. in August 2003, the former two companies sold their equity interests in Guangdong Xinghua Health Drink Co., Ltd. to the latter one at the price of RMB6.765 million and RMB1.98 million respectively.

5. 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.

Notes to the Accounting Statements

6. Effect of current change in accounting policy

In accordance with the “Accounting Standards for Business Enterprises-Events Occurring after the Balance Sheet Date” promulgated by the Ministry of Finance on April 14, 2003, the Group made retroactive adjustment on the cash dividends in the profit distribution plan made by the board of directors between the balance sheet date and the date on which the financial reports are authorized for issue. The adjustment affects the financial status as follows:

	2002	2001	2000
Undistributed profit:			
Before adjustment	25,264,608.87	1,011,627.95	(26,958,138.43)
Adjustment amount	48,654,000.00	48,654,000.00	26,133,000.00
After adjustment	73,918,608.87	49,665,627.95	(825,138.43)

7. Notes to Consolidated Financial Statements (All amounts are stated in RMB Yuan unless otherwise stated)

1. Cash

	31 December 2003	31 December 2002
Cash on hand	1,636,651.51	1,613,278.00
Cash in bank	813,935,035.65	993,825,484.15
Other cash	867,353.98	24,464,416.80
	<u>816,439,041.14</u>	<u>1,019,903,178.95</u>

(1) Breakdown of cash in bank

	31 December 2003	31 December 2002
Current deposit	795,273,557.32	964,825,484.15
Fixed deposit	18,661,478.33	29,000,000.00
	<u>813,935,035.65</u>	<u>993,825,484.15</u>

(2) Breakdown of other cash

	31 December 2003	31 December 2002
Out-port bank deposit	49,292.78	—
Credit card deposit	257,790.04	238,696.27
L/C guaranty deposit	453,121.55	7,387,026.21
Bank bill deposit	—	16,838,694.32
Other	107,149.61	—
	<u>867,353.98</u>	<u>24,464,416.80</u>

At the year-end, the Group holds current deposit of HKD161,185.65 (equiv. to RMB171,775.55) and USD851.89 (equiv. to RMB7,050.84) in Hongkong.

Notes to the Accounting Statements

2. Short-term investments

	31 December 2003	Impairment provision	Market price at 31 December 2003
Stock	3,565,014.57	—	5,175,021.15
Treasury bond	29,720,600.00	1,677,300.00	28,043,300.00
Fund	17,919,995.80	29,000.00	18,275,435.96
	<u>51,205,610.37</u>	<u>1,706,300.00</u>	

Note: According to the closing price of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on 31 December 2003, the Group made provision for the amount of which the market price was lower than cost.

3. Notes receivable

	31 December 2003	31 December 2002
Bank acceptance Notes	35,611,830.71	180,000.00
Commercial acceptance Notes	16,668,924.48	—
	<u>52,280,755.19</u>	<u>180,000.00</u>

Notes receivables as at 31 December 2003 increased by RMB52,101 thousand than year 2002 which mainly due to more customers of the Group use notes to settle the debtors.

4. Dividend receivable

	31 December 2003	31 December 2002
Nanhai Southern Packing Company Limited	6,316,510.00	5,106,895.00
GETDD Yongcheng Medicine Trading Co., Ltd.	—	367,789.92
	<u>6,316,510.00</u>	<u>5,474,684.92</u>

5. Accounts receivable

(1) Aging analysis of accounts receivable

Age	31 December 2003		Bad debt provision	Provision Percentage
	Balance	Percentage		
Within 1 year	870,056,908.56	93.16%	8,856,680.31	1.02%
1-2 years	22,879,523.01	2.45%	13,419,533.32	58.65%
2-3 years	8,144,462.74	0.87%	3,185,631.44	39.11%
3-4 years	6,774,493.37	0.73%	4,570,482.67	67.47%
4-5 years	7,191,215.04	0.77%	6,652,596.13	92.51%
Over 5 years	18,862,568.76	2.02%	18,862,568.76	100.00%
	<u>933,909,171.48</u>	100.00%	<u>55,547,492.63</u>	5.95%

Notes to the Accounting Statements

Age	31 December 2002		Bad debt provision	Provision Percentage
	Balance	Percentage		
Within 1 year	702,018,180.98	92.95%	7,463,417.61	1.06%
1-2 years	13,915,260.16	1.84%	1,396,272.50	10.03%
2-3 years	9,243,624.58	1.23%	3,026,900.14	32.75%
3-4 years	8,174,940.32	1.08%	6,028,518.11	73.74%
4-5 years	5,680,233.64	0.75%	4,634,598.70	81.59%
Over 5 years	16,241,805.31	2.15%	16,241,805.31	100.00%
	<u>755,274,044.99</u>	100.00%	<u>38,791,512.37</u>	5.14%

No shareholders holding 5% or more ordinary shares of the Company have payable balances included in the above.

- (2) Included in balance as at 31 December 2003, RMB61,799,467.27 is due from the top five customers which representing 6.62% of the total balance.
- (3) During the year, totaling 119 accounts receivable balances had been written off amounted to RMB3,025,977.87, included in which there were no intercompany balances.
- (4) Accounts receivable aged 1-2 years included an amount of RMB11,720,123.47 which is due from Puning Honghai Pharmaceutical Co., Ltd.. Due to conflicts exist, the Group provide full provision against the due balance based on conservative concept.

6. Other receivables

- (1) Aging analysis of other receivables

Age	31 December 2003		Bad debt provision	Provision Percentage
	Balance	Percentage		
Within 1 year	93,173,619.62	66.12%	119,286.94	0.13%
1-2 years	6,873,747.02	4.88%	63,544.95	0.92%
2-3 years	13,298,935.52	9.44%	26,706.28	0.20%
3-4 years	8,057,699.86	5.72%	512,939.25	6.37%
4-5 years	2,202,650.53	1.56%	265,780.12	12.07%
Over 5 years	17,309,170.05	12.28%	8,946,826.69	51.69%
	<u>140,915,822.60</u>	100.00%	<u>9,935,084.23</u>	7.05%

Age	31 December 2002		Bad debt provision	Provision Percentage
	Balance	Percentage		
Within 1 year	71,525,059.73	55.04%	811,666.25	1.13%
1-2 years	19,685,420.24	15.15%	1,862,697.62	9.46%
2-3 years	13,800,383.35	10.62%	41,052.51	0.30%
3-4 years	4,449,861.62	3.42%	50,000.00	1.12%
4-5 years	7,570,986.98	5.83%	668,841.08	8.83%
Over 5 years	12,921,465.03	9.94%	3,543,419.72	27.42%
	<u>129,953,176.95</u>	100.00%	<u>6,977,677.18</u>	5.37%

Notes to the Accounting Statements

(2) Details of other receivables at end of year:

	Amount
Petty cash	2,076,005.92
Deposits and prepayments	6,802,582.70
Downpayment for the project and the equipment	17,762,100.48
Advance for operation	13,708,930.15
Staff borrowings	882,418.13
Current account between related parties	20,551,803.91
Other receivables	24,858,965.66
Current account with external company	54,273,015.65
	<u>140,915,822.60</u>

Among the other receivable accounts, the amount due from shareholder with 5% or more shareholding is that due from the Holding with an amount of RMB7,226,782.86.

(3) The five largest balances of RMB38,685,880.12, accounting for 27.45% of the total.

(4) The current 29 reversals of other receivables amount to 2,873,992.95 and all are not related to related party transactions.

7. Advance to suppliers

(1) From the balance aforementioned, no advance is prepaid to shareholders with 5% or more shareholding.

(2) Advance to suppliers as at 31 December 2003 increased by 39,402 thousand, with an increase of 49%, as compared with 1 January 2003, because more downpayments are required for obtaining the sole agent of Some medicine.

8. Subsidy receivable

	31 December 2003	31 December 2002
Output VAT refundable	<u>10,325,834.50</u>	<u>10,064,712.63</u>

9. Inventories

	31 December 2003		31 December 2002	
	Balance	Provision	Balance	Provision
Goods in transit	3,697,330.09	—	3,920,280.65	—
Raw materials	80,703,963.41	298,752.78	78,262,771.39	298,752.78
Work in progress	62,052,049.41	—	35,133,621.26	—
Finished goods	80,545,553.20	111,066.72	85,135,120.98	—
Low-value Consumables	1,916,496.77	—	1,554,527.27	—
Packing Materials	32,111,255.96	—	28,032,228.25	—
Consigned goods for process	600,394.57	—	1,342,025.86	—
Goods in stock	802,786,887.82	449,914.69	613,928,504.51	390,344.03
Others	3,885,332.06	—	1,899,090.95	—
	<u>1,068,299,263.29</u>	<u>859,734.19</u>	<u>849,208,171.12</u>	<u>689,096.81</u>

Notes to the Accounting Statements

At end of 2003, the Group provide net realisable value provision with an amount of RMB859,734.19 for inventories. In accordance with the stipulations with ref. GYJZ [2003] 96 issued by the State Drug Administration, the document ref. of ratification for all medicines are labeled as “GYZZ” and at the same time all medicines with local document reference of ratification cease to be produced from 1 January 2004. The commercial enterprises subordinate to the Company provided write-down provision with a sum of 449,914.69 for medicines with local document reference of ratification. Net realizable value of damaged inventories is determined at the expected recoverable value and that of long idled ones are measured at the market price.

10. Prepaid expense

	31 December 2002	Addition	Amortization	31 December 2003
Insurance premium prepaid	2,600,600.95	2,356,736.66	3,140,588.06	1,816,749.55
Repair and maintenance of fixes assets	582,927.48	3,247,962.85	3,830,890.33	—
Road toll	31,253.28	125,460.00	30,280.00	126,433.28
Advertising	1,152,000.00	14,990,380.00	9,903,222.00	6,239,158.00
Deductible input VAT	76,886,436.31	307,794,393.54	302,284,720.93	82,396,108.92
Others	474,401.17	2,878,681.75	2,631,177.61	721,905.31
	<u>81,727,619.19</u>	<u>331,393,614.80</u>	<u>321,820,878.93</u>	<u>91,300,355.06</u>

11. Long-term equity investment

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

Investee	Period	Holding percentage	Investment cost
Indonesia Sanyou Industrial Company Limited	2014	50.00%	1,521,562.82
Guangzhou Zhongfu Pharmaceutical Company Limited	N/A	50.00%	400,000.00
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	31.56%	615,000.00
Guangzhou Chenlijing Xingma Health Care Products Co., Ltd.	2004	65.00%	963,950.00
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	N/A	44.00%	440,000.00
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	516,930.33
East China Pharmaceutical Co., Ltd.	N/A	13.47%	264,000.00
Guangzhou Medicine Commodities Exhibition Store	N/A	80.00%	861,392.58
Guangzhou Medicine Company Beijing Road Chinese Medicine Bazaar	N/A	20.00%	160,000.00
Guangzhou Yongxin Medicine Trading Co., Ltd.	N/A	10.00%	119,700.00
Golden Eagle Asset Management Co.	N/A	20.00%	20,000,000.00
Jihua Medical Appliance Company Limited	N/A	24.00%	3,000,000.00
Guangzhou Jinshen Pharmaceutical Co., Ltd.	N/A	45.00%	675,000.00
Nanhai Nanfang Packaging Co., Ltd.	2011	21.42%	30,000,000.00
Guoyao Group Industrial Co., Ltd.	N/A	10.00%	8,000,000.00
Guangzhou Huayin Bio-technology Co., Ltd.	N/A	15.00%	150,000.00
Shenzhen Qixing Lanzao Bio-technology Co., Ltd.	2016	72.00%	3,600,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	2005	40.00%	362,826.38
Communication Bank Guangdong Branch	N/A		362,750.00
Everbright Bank	N/A	0.30%	10,725,000.00

Notes to the Accounting Statements

(2) Movement of long-term equity investment during 2003 is as follows

Investee	31 December 2003	2003 equity pickup	Accumulated equity pickup	Provision	Note
Indonesia Sanyou Industrial Company Limited	1,260,144.45	—	(261,418.37)	1,260,144.45	[1]
Guangzhou Zhongfu Pharmaceutical Company Limited	1,707,895.91	504,969.53	1,307,895.91	—	
Shanghai Jiuhe Tang Chinese Medicine Company Limited	615,000.00	—	—	—	
Guangzhou Chenlijing Xingma Health Care Products Co., Ltd.	346,209.02	(55,097.29)	(617,740.98)	—	
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	347,062.55	(53,009.20)	(92,937.45)	—	
Ming Tai Industrial (Thailand) Company Limited	320,843.90	9,094.58	(196,086.43)	—	
East China Pharmaceutical Co., Ltd.	264,000.00	—	—	—	
Guangzhou Medicine Commodities Exhibition Store	542,241.53	12,422.70	(319,151.05)	—	
Guangzhou Chinese Medicine Corporation Beijing Road Chinese Medicine Bazaar	218,399.05	—	58,399.05	—	
Guangzhou Yongxin Medicine Trading Co., Ltd.	119,700.00	—	—	—	
Golden Eagle Asset Management Co.	15,328,623.40	(4,671,376.60)	(4,671,376.60)	—	
Jihua Medical Appliance Company Limited	1,972,052.79	(417,613.74)	(1,027,947.21)	—	
Guangzhou Jinshen Pharmaceutical Co., Ltd.	675,000.00	—	—	—	
Nanghai Nanfang Packaging Co., Ltd.	30,000,000.00	—	—	—	
Guoyao Group Industrial Co., Ltd.	8,000,000.00	—	—	—	
Guangzhou Huayin Bio-technology Co., Ltd.	150,000.00	—	—	—	
Shenzhen Qixing Lanzao Bio-technology Co., Ltd.	870,923.25	(487,106.25)	(2,729,076.75)	522,553.95	[2]
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	—	—	—	
Communication Bank Guangdong Branch Everbright Bank	362,750.00 10,725,000.00	— —	— —	— —	
Guangzhou Pangaoshou Natural Health Product Co., Ltd. (Consolidation variance)	1,294,828.94	—	—	—	[3]
Guangzhou Huanye Pharmaceutical Co., Ltd. (Consolidation variance)	893,107.07	—	—	—	[4]
Guangzhou Bio-technology Co., Ltd. (Consolidation variance)	273,283.13	—	—	—	[5]
	<u>76,649,891.37</u>	<u>(5,157,716.27)</u>	<u>(8,549,439.88)</u>	<u>1,782,698.40</u>	

Note 1: As the Group can not know the financial position of Indonesia Sanyou Industrial Company Limited and thus is not aware of the present condition of the investee, provision is made in full amount for this investment on the basis of conservatism principle.

Note 2: Shenzhen Qixing Lanzao Bio-technology Co., Ltd. has suffered significant losses and it is hard to continue to operate, therefore it began liquidation at the end of 2003. According to the recoverability estimated by the liquidation committee, the Group accrued provision for impairment at the rate of 60%.

Note 3: Consolidation variance of Guangzhou Pangaoshou Natural Health Product Co., Ltd. amounts to 1,294,828.94, representing the remaining amortized amount of the difference between the subsidiary, Guangzhou Pangaoshou Pharmaceutical Co., Ltd.'s payments for purchase of 32% and 15% of Guangzhou Pangaoshou Natural Health Product Co., Ltd. in October 1999 and November 2002 respectively, and the share of owners' equity of Guangzhou Pangaoshou Natural Health Product Co., Ltd.. The initial amount of the equity investment difference is 1,990,885.94, which is to be amortized averagely over the investment period from the next month of obtaining the investment as stipulated in the contract. The current amortization is 171,853.68 and the accumulated amortization is 696,057.00.

Notes to the Accounting Statements

Note 4: Consolidation variance of Guangzhou Huanye Pharmaceutical Co., Ltd. amounts to 893,107.07, representing the difference between the total payments for purchase of the equity interests and the increment of capital in December 2002, and the share of owners' equity acquired. The difference is amortized evenly from January 2003. The current amortization is 99,234.12 and the accumulated amortization is 99,234.12.

Note 5: Consolidation variance of Guangzhou Bio-technology Co., Ltd. amounts to 273,283.13, representing the difference between the Company's payments for purchases of the equity interests of Guangzhou Bio-technology Co., Ltd. in June 2002 and November 2003, and the share of owners' equity of Guangzhou Bio-technology Co., Ltd.. The current amortization is 18,072.26 and the accumulated amortization is 18,072.26.

12. Fixed assets and accumulated depreciation

Cost	31 December 2002	Addition	Disposal	31 December 2003
Land & buildings	681,829,795.79	173,225,895.05	13,368,409.29	841,687,281.55
Machinery	419,142,341.08	94,631,301.11	39,627,882.63	474,145,759.56
Motor Vehicles	83,408,757.51	13,136,584.86	4,978,379.27	91,566,963.10
Electronic equipment	23,786,362.81	3,042,414.03	1,182,191.56	25,646,585.28
Office equipment	39,312,332.31	17,616,936.55	2,342,307.17	54,586,961.69
Renovation of fixed assets	—	17,809,198.38	—	17,809,198.38
	<u>1,247,479,589.50</u>	<u>319,462,329.98</u>	<u>61,499,169.92</u>	<u>1,505,442,749.56</u>
Accumulated depreciation	31 December 2002	Change for the year	Disposals	31 December 2003
Land & buildings	137,809,341.32	29,460,932.03	3,892,445.99	163,377,827.36
Machinery	226,314,756.01	34,039,731.38	20,775,141.76	239,579,345.63
Motor Vehicles	47,056,018.35	8,803,947.81	3,984,353.62	51,875,612.54
Electronic equipment	12,069,418.42	3,152,271.06	1,122,880.12	14,098,809.36
Office equipment	18,957,726.66	9,247,628.33	1,854,119.05	26,351,235.94
Renovation of fixed assets	—	3,303,779.94	—	3,303,779.94
	<u>442,207,260.76</u>	<u>88,008,290.55</u>	<u>31,628,940.54</u>	<u>498,586,610.77</u>
Provision for impairment:	31 December 2002	Provision for the year	Written off	31 December 2003
Land & buildings	21,648,669.49	—	3,508,844.99	18,139,824.50
Machinery	7,505,296.38	1,157,064.00	1,422,947.96	7,239,412.42
Motor Vehicles	280,857.44	26,206.00	28,996.03	278,067.41
Electronic equipment	—	—	—	—
Office equipment	129,520.14	—	—	129,520.14
Renovation of fixed assets	—	—	—	—
	<u>29,564,343.45</u>	<u>1,183,270.00</u>	<u>4,960,788.98</u>	<u>25,786,824.47</u>

Notes to the Accounting Statements

- (1) The Group re-classified part of fixed assets in the current year and the beginning balance is adjusted retroactively.

Cost:	1 January 2003	31 December 2002	Variance
Land & buildings	681,829,795.79	681,829,795.79	—
Machinery	419,142,341.08	439,590,073.71	(20,447,732.63)
Motor Vehicles	83,408,757.51	83,408,757.51	—
Electronic equipment	23,786,362.81	11,877,149.99	11,909,212.82
Office equipment	39,312,332.31	30,773,812.50	8,538,519.81
	<u>1,247,479,589.50</u>	<u>1,247,479,589.50</u>	<u>—</u>

Accumulated depreciation:	1 January 2003	31 December 2002	Variance
Land & buildings	137,809,341.32	137,809,341.32	—
Machinery	226,314,756.01	235,017,893.00	(8,703,136.99)
Motor Vehicles	47,056,018.35	47,056,018.35	—
Electronic equipment	12,069,418.42	7,063,937.52	5,005,480.90
Office equipment	18,957,726.66	15,260,070.57	3,697,656.09
	<u>442,207,260.76</u>	<u>442,207,260.76</u>	<u>—</u>

Provision for impairment:	1 January 2003	31 December 2002	Variance
Land & buildings	21,648,669.49	18,763,309.95	2,885,359.54
Machinery	7,505,296.38	10,390,655.92	(2,885,359.54)
Motor Vehicles	280,857.44	280,857.44	—
Electronic equipment	—	—	—
Office equipment	129,520.14	129,520.14	—
	<u>29,564,343.45</u>	<u>29,564,343.45</u>	<u>—</u>

- (2) During the year, construction in progress transferred to fixed assets amounted to RMB252,214 thousand.
- (3) As at 31 December 2003, the Group has pledged its fixed assets with net book value of RMB118,400 thousand (Last year: RMB118,030 thousand) for bank loans.
- (4) At the year-end, the Group provided provision of RMB25,787 thousand for the difference between recoverable amount and the book value owing to their technology obsolescence, damage or long idleness.

Notes to the Accounting Statements

13. Construction in progress

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

Project	Budget	Financing source	% of fund used to budget
Relocation of Guangzhou Xingqun Pharmaceutical Company	243,688,046.72	Working Capital and loan	77%
Xingqun Manufacture Workshop project at phase 3	16,835,778.76	Working Capital	97%
Xingqun Repair Workshop project at phase 2	465,000.00	Working Capital	100%
Zhong Yi dust removing project		Working Capital, loan and government appropriation	—
Zhong Yi relocation of Yunpu workshop	197,030,000.00	Working Capital	42%
Relocation and expansion of Chenliji factory	126,000,000.00	Working capital	101%
Chinese medicine absorbing base of Chenliji		Working capital and stock capital	—
Chenliji product technical alteration	29,100,000.00	Working capital and stock capital	80%
Chenliji product show room	4,000,000.00	Working capital	48%
Chenliji noise renovation project	38,000.00	Working Capital	95%
Hanfang Conghua base construction	118,840,000.00	Stock capital and government appropriation	35%
Hanfang equipment installation project	3,786,349.50	Stock capital and government appropriation	100%
Jingxiutang prepayment for equipment		Working capital and loan	—
Jingxiutang Anbike equipment installed		Working capital	—
Jingxiutang suppository production line	12,821,045.48	Working capital and stock capital	100%
Jingxiutang Zhufengtouguwan production line	11,339,612.77	Working capital and stock capital	96%
Jingxiutang GMP upgrade project	30,300,000.00	Working capital and loan	28%
Jingxiutang Wanhuayou GMP	4,196,978.09	Working capital	96%
Jingxiutang sewage treatment pool		Working capital	—
Pangaoshou vehicles		Working capital	—
Pangaoshou office equipment		Working capital	—
Pangaoshou GMP reconstruction project	104,910,000.00	Loan and government appropriation	64%
Pangaoshou office in Fuqian Building	7,707,542.02	Working capital	100%
Yangcheng inter-factory maintenance	1,000,000.00	Working capital	99%
Yangcheng manufacturing GMP workshop	23,000,000.00	Working capital and loan	99%
Alteration of Yangcheng sewage treatment	400,000.00	Working capital	61%
Alteration of Yangcheng boiler project	600,000.00	Working capital	12%
Alteration of Yangcheng distilling workshop technology	1,700,000.00	Working capital	109%
Yangcheng pill workshop	11,000,000.00	Working capital and stock capital	87%
Yangcheng technology renovation for Jianpilichangpian & Anchuangpian	17,800,000.00	Stock capital and loan	54%
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	52,680,000.00	Working capital, stock capital and loan	81%
Jianmin Yirentiandi	6,000,000.00	Working capital	4%
Computer installation of Guangzhou Pharmaceuticals Corporation	1,120,260.00	Working capital and stock capital	100%
Office building renovation of Guangzhou Pharmaceuticals Corporation	6,160,000.00	Working capital	92%
Caizhiling store in Jiahong Garden	2,179,473.00	Working capital and stock capital	100%
Caizhiling store in Wanfeng Garden	2,385,100.00	Working capital and stock capital	100%
Chinese medicine GMP reconstruction project	5,000,000.00	Working capital	59%
Medicine imp. & exp. ERP project	600,000.00	Stock capital	16%
Business ERP project	4,080,000.00	Stock capital	100%
Baidi thunder-proof project	37,499.00	Working capital	70%
Baidi GMP renovation project	104,770.00	Working capital	60%
Baidi equipment installation	2,000,000.00	Government appropriation	64%
Baidi equipment installation	2,739,972.00	Working capital	100%

Notes to the Accounting Statements

Project	Budget	Financing source	% of fund used to budget
Huanye development zone office building	323,120.00	Working capital	149%
Huanye solid preparation workshop project	4,738,900.00	Working capital	52%
Huanye development zone testing	115,500.00	Working capital	100%
Treatment & renovation of Huanye before plantation	304,153.06	Working capital	100%
Renovation of Huanye Fangcun district	—	Working capital	—
Huanye raw materials workshop project	4,198,100.00	Working capital	100%
Qixing Xinchuangju office building	16,872,455.01	Working capital	100%
Tianbao GMP workshop reinforcement and renovation project	—	Working capita	—

(2) Changes of construction in progress in the current period are as follows:

Project	31 December 2002	Addition	Transferred to fixed asset	Other reduction	31 December 2003
Relocation of Guangzhou Xingqun Pharmaceutical Company	136,019,083.45	50,631,019.39	184,922,416.16	—	1,727,686.68
Xingqun Manufacture Workshop project at phase 3	4,498,512.02	11,881,640.13	—	15,750.00	16,364,402.15
Xingqun Repair Workshop project at phase 2	33,636.64	431,749.68	—	14,940.00	450,446.32
Zhong Yi dust removing project	80,000.00	—	—	—	80,000.00
Zhong Yi relocation of Yunpu workshop	23,172,973.19	51,570,427.26	—	—	74,743,400.45
Relocation and expansion of Chenlijii factory	3,320,038.08	322,578.00	1,280,461.82	1,025,878.50	1,336,275.76
Chinese medicine absorbing base of Chenlijii	7,692.00	—	—	—	7,692.00
Chenlijii product technical alteration	9,909,891.37	3,396,829.14	—	—	13,306,720.51
Chenlijii product show room	29,400.00	1,893,848.86	—	—	1,923,248.86
Chenlijii noise renovation project	—	36,100.00	—	—	36,100.00
Hanfang Conghua base construction	1,686,180.99	38,423,833.40	—	—	40,110,014.39
Hanfang equipment installation project	2,029,731.25	1,765,025.75	2,506,426.50	34,403.50	1,253,927.00
Jingxiutang prepayment for equipment	1,641,085.18	4,939,867.15	3,919,071.73	542,082.00	2,119,798.60
Jingxiutang Anbike equipment installed	50,000.00	—	—	—	50,000.00
Jingxiutang suppository production line	7,631,363.06	3,304,976.35	6,572,312.93	411,360.00	3,952,666.48
Jingxiutang Zhweifengtouguwan production line	7,985,355.32	1,227,537.46	1,740,604.14	640,031.00	6,832,257.64
Jingxiutang GMP upgrade project	1,080,040.06	804,917.60	—	157,093.50	1,727,864.16
Jingxiutang Wanhuyou GMP	1,152,200.00	2,274,073.43	470,720.00	—	2,955,553.43
Jingxiutang sewage treatment pool	—	558,281.00	—	—	558,281.00
Pangaoshou vehicles	532,200.00	—	532,200.00	—	—
Pangaoshou office equipment	45,800.00	—	45,800.00	—	—
Pangaoshou GMP reconstruction project	7,427,043.52	59,638,317.45	1,462,052.88	—	65,603,308.09
Pangaoshou office in Fujian Building	80,000.00	—	80,000.00	—	—
Yangcheng inter-factory maintenance	170,000.00	817,119.48	140,000.00	453,119.48	394,000.00
Yangcheng manufacturing GMP workshop	5,774,285.37	15,847,916.84	21,622,202.21	—	—
Alteration of Yangcheng sewage treatment	11,007.64	586,094.75	—	—	597,102.39
Alteration of Yangcheng boiler project	10,000.00	91,851.96	—	—	101,851.96
Alteration of Yangcheng distilling workshop technology	649,019.72	1,200,403.00	1,849,422.72	—	—
Yangcheng pill workshop	—	730,000.00	630,000.00	—	100,000.00

Notes to the Accounting Statements

Project	31 December		Transferred to fixed asset	Other reduction	31 December 2003
	2002	Addition			
Yangcheng technology renovation for Jianpilichangpian & Anchuangpian	—	7,222,700.57	6,843,265.57	—	379,435.00
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	8,542,407.42	34,267,152.19	—	—	42,809,559.61
Jianmin Yirentiandi	—	210,940.00	—	—	210,940.00
Computer installation of Guangzhou Pharmaceuticals Corporation	336,078.00	—	336,078.00	—	—
Office building renovation of Guangzhou Pharmaceuticals Corporation	800,000.00	4,896,000.00	5,696,000.00	—	—
Caizhiling store in Jiahong Garden	2,179,473.00	—	—	—	2,179,473.00
Caizhilin store in Wanfeng Garden	—	84,500.00	—	—	84,500.00
Chinese medicine GMP reconstruction project	—	2,955,874.12	—	—	2,955,874.12
Medicine imp. & exp. ERP project	97,909.45	—	—	—	97,909.45
Business ERP project	4,330,352.17	—	4,330,352.17	—	—
Baidi thunder-proof project	—	26,249.13	—	—	26,249.13
Baidi GMP renovation project	—	62,862.00	—	—	62,862.00
Baidi equipment installation	—	1,283,400.00	—	—	1,283,400.00
Baidi equipment installation	2,678,291.02	61,681.00	2,678,291.02	—	61,681.00
Huanye development zone office building	402,919.11	78,623.46	159,436.57	75,170.00	246,936.00
Huanye solid preparation workshop project	67,928.23	2,413,528.04	141,414.07	1.14	2,340,041.06
Huanye development zone testing	115,500.00	—	—	115,500.00	—
Treatment & renovation of Huanye before plantation	329,967.80	225,225.96	480,023.76	75,170.00	—
Renovation of Huanye Fangcun district	40,000.00	464,528.06	364,682.48	75,170.00	64,675.58
Huanye raw materials workshop project	—	1,146,336.72	1,071,166.72	75,170.00	—
Qixing Xinchuangju office building	—	16,872,455.01	—	—	16,872,455.01
Tianbao GMP workshop reinforcement and renovation project	1,669,072.73	670,337.14	2,339,409.87	—	—
	<u>236,616,437.79</u>	<u>325,316,801.48</u>	<u>252,213,811.32</u>	<u>3,710,839.12</u>	<u>306,008,588.83</u>

Balance of construction in progress as at 31 December 2003 increased by 69,392,000 than the beginning balance, representing 29.33%, mainly resulting from the additional injection for Zhong Yi relocation of Yunpu workshop of Guangzhou Zhongyi Pharmaceutical Co., Ltd., Hanfang Conghua base construction of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd., logistics center in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation.

- (3) At the year-end the Group made provision for impairment for Zhong Yi dust removing project in a full amount of 80,000 because the project has been suspended for a long time and may not be resumed in the foreseeable future.

Notes to the Accounting Statements

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

Project	31 December 2002	Addition	Transferred to fixed asset	Other reduction	31 December 2003
Relocation of Guangzhou Xingqun Pharmaceutical Company	13,048,046.72	—	13,048,046.72	—	—
GMP reconstruction of Pangaoshou workshop	—	62,540.00	—	—	62,540.00
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	80,202.80	—	—	80,202.80	—
	<u>13,128,249.52</u>	<u>62,540.00</u>	<u>13,048,046.72</u>	<u>80,202.80</u>	<u>62,540.00</u>

14. Intangible assets

(1) Details of intangible assets are as follows:

Items	Acquisition method	Cost	Provision	Remaining amortization period (No. of month)
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	—	504.00
Land use right of Renmin Road factory	Purchase	2,686,602.00	—	504.00
Land use right of No.34 of Guanlv Road	Purchase	40,873.95	—	468.00
Malotilate emulsion technology Famciclovir soft capsule technology	Purchase	1,500,000.00	—	117.00
Land use right of No.19-29 of Ningxiheng Street	Purchase	480,000.00	—	114.00
Land use right of Conggui Road	Purchase	1,618,067.38	—	474.00
Land use right of No. 77 of Shanmulan	Purchase	245,477.00	—	528.00
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3	Purchase	199,200.00	—	557.00
Land use right of No. 194 of Beijing Road	Purchase	1,465,822.00	—	199.00
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	2,362,581.08	—	533.00
Land use right of No. 1688 of Southern Guangzhou Avenue at the gate	Purchase	27,006,173.92	—	524.00
Land use right of Songgang Factory	Purchase	325,818.02	—	476.00
		20,417,970.00	—	480.00

Notes to the Accounting Statements

Items	Acquisition method	Cost	Provision	Remaining amortization period (No. of month)
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	—	469.00
Land use right of Panyu Dongsha Development Distric	Purchase	15,947,019.00	—	504.00
Land use right of Guangzhou Baiyun District Jiangcun factory	Purchase	3,463,092.00	—	522.00
Land use right of Shi Er Pu New Street	Purchase	3,509,041.00	—	403.00
Land use right of He Ping West Road No. 136-138	Purchase	1,535,744.00	—	403.00
Land use right of Huang Jin Wei	Purchase	1,051,697.00	—	403.00
Land use right of No.103 of Da Tong Road	Land appraisal appreciation	17,928,863.00	—	358.00
Land use right of No.328 in Beijing Road	Purchase	1,306,988.00	—	102.00
Land use right of A area of Xin Zhou Warehouse	Purchase	1,096,704.00	—	502.00
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	480,700.24	503.00
Land use right of Sai Ba Kou Warehouse	Purchase	402,518.00	—	502.00
Land use right of Chang An Warehouse	Purchase	114,675.00	—	444.00
Land use right of Jiu Fo Warehouse	Purchase	65,136.00	—	387.00
Land use right of No.85 of Shang Jiu Road	Purchase	3,195,793.33	—	432.00
Land use right of No.26 of Hong Chang Street	Purchase	309,046.00	—	502.00
Land use right of No.20 of Bao Hua Bei Road	Purchase	163,591.00	—	387.00
Land use right of No.44 of Bing Jiang Xi Road	Purchase	577,360.00	—	444.00
Land use right of No.54 of Xi Hua Road	Purchase	21,541.00	—	534.00
Land use right of No.69 of Hong De Road	Purchase	58,567.64	—	528.00
Land use right of No.265 of Da Xin Road	Purchase	330,153.00	—	516.00
Land use right of No.1 of Sha Yuan 3rd Street	Purchase	37,120.00	—	660.00

Notes to the Accounting Statements

Items	Acquisition method	Cost	Provision	Remaining amortization period (No. of month)
Land use right of No.22 of Guang Zhi Road	Purchase	109,032.00	—	660.00
Land use right of No.29 of Tong Fu Zhong Lu Long Dao Tong Jin	Purchase	27,045.00	—	660.00
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	—	521.00
Langcheng financial software	Purchase	1,649,746.91	485,451.22	51.00
New medicine technology transfer fee	Purchase	1,000,000.00	—	114.00
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	Investment accepted	1,755,288.00	—	540.00
Land use right of No. 5 of Panyu Dongsheng Factory	Purchase	3,078,097.91	—	480.00
Medicine recipe and techniques	Investment accepted	338,640.00	—	—
Proprietary technology of Luoxuanzao	Investment accepted	500,000.00	—	—
		<u>130,752,800.40</u>	<u>966,151.46</u>	

Provision for impairment of intangible assets is accrued at the difference of the carrying amount and the lower recoverable amount.

(2) Movement of intangible assets during 2003 is as below:

Project	31 December 2002	Addition	Current amortization	Accumulated amortization	31 December 2003
Land use right of Nanzhou Road factory	3,875,255.85	—	88,377.56	514,167.71	3,786,878.29
Land use right of Renmin Road factory	2,365,584.82	—	54,828.63	375,845.81	2,310,756.19
Land use right of No.34 of Guanlv Road	35,531.27	—	890.26	6,232.94	34,641.01
Malotilate emulsion technology	—	1,500,000.00	37,500.00	37,500.00	1,462,500.00
Famciclovir soft capsule technology	—	480,000.00	24,000.00	24,000.00	456,000.00
Land use right of No.19-29 of Ningxiheng Street	1,390,974.72	17,520.38	34,420.37	243,992.65	1,374,074.73
Land use right of Conggui Road	220,929.32	—	10,186.03	34,733.71	210,743.29
Land use right of No. 77 of Shanmulan	188,908.00	—	17,902.02	28,194.02	171,005.98
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3	1,196,782.00	73,678.00	68,664.00	264,026.00	1,201,796.00
Land use right of No. 194 of Beijing Road	2,151,148.77	—	47,251.62	258,683.93	2,103,897.15
Land use right of No. 1688 of Southern Guangzhou Avenue	24,125,515.36	—	540,123.48	3,420,782.04	23,585,391.88
Land use right of No. 1688 of Southern Guangzhou Avenue at the gate	251,801.95	16,643.02	6,183.50	63,556.55	262,261.47

Notes to the Accounting Statements

Project	31 December 2002	Addition	Current amortization	Accumulated amortization	31 December 2003
Land use right of Songgang Factory	1,820,381.37	—	44,989.64	18,642,578.27	1,775,391.73
Land use right of Nanhai Huangqi	3,703,220.86	—	473,589.92	860,369.06	3,229,630.94
Land use right of Panyu Dongsha Development Distric	14,051,869.00	—	318,941.00	2,214,091.00	13,732,928.00
Land use right of Guangzhou Baiyun District Jiangcun factory	3,153,970.17	—	70,875.72	379,997.55	3,083,094.45
Land use right of Shi Er Pu New Street	3,279,846.75	—	94,839.00	324,033.25	3,185,007.75
Land use right of He Ping West Road No. 136-138	1,435,436.48	—	41,506.56	41,814.08	1,393,929.92
Land use right of Huang Jin Wei	983,004.99	—	28,424.28	97,116.29	954,580.71
Land use right of No.103 of Da Tong Road	15,287,410.16	—	495,272.40	3,136,725.24	14,792,137.76
Land use right of No.328 in Beijing Road	1,135,445.93	—	35,397.57	206,939.64	1,100,048.36
Land use right of A area of Xin Zhou Warehouse	938,794.64	—	21,934.08	179,843.44	916,860.56
Land use right of B area of Xin Zhou Warehouse	2,307,494.74	—	42,483.60	411,129.86	2,265,011.14
Land use right of Sai Ba Kou Warehouse	344,561.48	—	8,050.32	66,006.84	336,511.16
Land use right of Chang An Warehouse	96,889.37	—	2,548.32	20,333.95	94,341.05
Land use right of Jiu Fo Warehouse	54,128.97	—	1,628.40	12,635.43	52,500.57
Land use right of No.85 of Shang Jiu Road	2,373,105.58	361,514.33	158,076.92	619,250.34	2,576,542.99
Land use right of No.26 of Hong Chang Street	264,547.69	—	6,180.96	50,679.27	258,366.73
Land use right of No.20 of Bao Hua Bei Road	135,946.78	—	4,089.72	31,733.94	131,857.06
Land use right of No.44 of Bing Jiang Xi Road	487,818.92	—	12,830.28	102,377.36	474,988.64
Land use right of No.54 of Xi Hua Road	19,602.40	—	430.80	2,369.40	19,171.60
Land use right of No.69 of Hong De Road	57,321.52	—	1,246.11	2,492.23	56,075.41
Land use right of No.265 of Da Xin Road	290,534.64	—	6,603.06	46,221.42	283,931.58
Land use right of No.1 of Sha Yuan 3rd Street	32,866.88	—	927.96	5,181.08	31,938.92
Land use right of No.22 of Guang Zhi Road	96,538.85	—	2,725.80	15,218.95	93,813.05
Land use right of No.29 of Tong Fu Zhong Lu	23,945.77	—	676.20	3,775.43	23,269.57
Land use right of No.12 of Fangcun Sai Ba Road	1,568,821.87	—	35,290.44	230,991.47	1,533,531.43
Langcheng financial software	871,253.94	—	342,478.64	1,120,971.61	528,775.30
New medicine technology transfer fee	—	1,000,000.00	50,004.00	50,004.00	949,996.00
Land use right of No.33 of Xin Gang Zhong Road	1,614,863.96	—	35,104.76	175,528.80	1,579,759.20
Land use right of No. 5 of Panyu Dongsheng Factory	2,146,382.01	181,818.29	60,781.20	810,678.81	2,267,419.10
Medicine recipe and techniques	156,360.00	—	156,360.00	338,640.00	—
Proprietary technology of Luoxuanzao	199,920.00	—	199,920.00	500,000.00	—
	<u>94,734,717.78</u>	<u>3,631,174.02</u>	<u>3,684,535.13</u>	<u>36,071,443.37</u>	<u>94,681,356.67</u>

Notes to the Accounting Statements

15. Long-term prepaid expense

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

Item	Amortization period	Cost	Remaining amortization period
Renovation	5 years	35,542,916.42	1 to 5 years
Expenditure on leasehold improvement	5 years	1,982,790.62	Fully amortized
Installation of telephone	5 years	2,756,400.00	6 months
Maintenance expenditure on fixed assets	5 years	7,162,070.45	6 months
Revaluation surplus of H shares	5 years	8,199,065.99	Fully amortized
Computer system	5 years	5,798,076.31	12 months
GMP project improvement	5 years	4,426,817.44	12 months
ERP system	5 years	5,257,364.82	12 months
Medical fund for retired staff	5 years	2,414,500.00	2 to 4 years
Transitional medical fund for retired staff	10 years	3,049,676.46	12 months
Labor insurance premium	5 years	417,623.11	1 to 3 years
Others	2-5 years	5,840,569.96	1 to 5 years
		<u>82,847,871.58</u>	

(2) Movement of long-term prepaid expense during 2003 are as below:

Item	31 December 2002	Current Addition	Current Amortization	Accumulated Amortization	31 December 2003
Renovation	17,108,045.83	4,294,936.79	2,230,402.17	16,370,335.97	19,172,580.45
Expenditure on leasehold improvement	231,192.50	—	231,192.50	1,982,790.62	—
Installation of telephone	152,859.00	—	46,899.74	2,650,440.74	105,959.26
Maintenance expenditure on fixed assets	5,104,460.57	322,790.06	3,417,309.89	5,152,129.71	2,009,940.74
Revaluation surplus of H shares	195,927.46	—	195,927.46	8,199,065.99	—
Computer system	1,506,826.80	122,128.00	1,076,702.24	5,245,823.75	552,252.56
GMP project improvement	351,528.60	—	222,018.00	4,297,306.84	129,510.60
ERP system	1,926,353.84	479,270.00	1,291,378.90	4,143,119.88	1,114,244.94
Medical fund for retired staff	1,410,759.11	—	527,992.18	1,531,733.07	882,766.93
Transitional medical fund for retired staff	2,897,121.96	—	206,109.02	358,663.52	2,691,012.94
Labor insurance premium	250,573.93	—	83,524.56	250,573.74	67,049.37
Others	1,953,742.85	611,027.24	977,027.22	4,252,827.09	1,587,742.87
	<u>33,089,392.45</u>	<u>5,830,152.09</u>	<u>10,506,483.88</u>	<u>54,434,810.92</u>	<u>28,413,060.66</u>

Notes to the Accounting Statements

16. Short-term loans

	31 December 2003	31 December 2002
Loan by credit	50,000,000.00	—
Loan by mortgage and pledge	148,300,000.00	123,590,000.00
Loan by guaranty	465,930,000.00	431,750,000.00
	<u>664,230,000.00</u>	<u>555,340,000.00</u>

17. Notes payable

	31 December 2003	31 December 2002
Bank acceptance bill	212,533,538.69	75,396,044.40
Commercial acceptance bill	—	2,782,540.00
	<u>212,533,538.69</u>	<u>78,178,584.40</u>

Balance of notes payable as at 31 December 2003 increased by 134,355 thousand, representing 172%, than the beginning balance, mainly because the purchase rose to meet the dramatic increase of sales in the commercial enterprises of the Group, and on this condition bank acceptance bills are used more often for settlement for the purpose of management of fund.

18. Accounts payable

Of the balance as at 31 December 2003, no current account is due to shareholders with 5% or more shareholding.

19. Advances from customers

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

20. Dividend payable

Name of shareholder	31 December 2003	Note
Minor shareholders	41.03	Dividend of 2002 unpaid
Overseas public shareholder	11,137.00	Balance of the dividends for previous years
	<u>11,178.03</u>	

Notes to the Accounting Statements

21. Taxes payable

	31 December 2003	31 December 2002
Business tax	912,882.34	740,573.03
Value added tax	(27,869,188.13)	1,333,586.80
City construction tax	948,807.24	1,003,648.19
Enterprise income tax	44,824,745.71	42,033,131.60
Property tax	273,815.82	284,122.75
Withholding tax	2,318,100.42	3,218,901.49
Others	196,227.07	159,665.03
	<u>21,605,390.47</u>	<u>48,773,628.89</u>

Taxes payable decreased by RMB27,168 thousand, representing a decrease of 56%, mainly because input VAT is larger than output VAT, owing to the great increase in purchase by the commercial enterprises of the Group.

22. Other liabilities

	Note	31 December 2003	31 December 2002
Education surcharge	(1)	410,733.97	434,453.48
Flood prevention levy	(2)	2,216,500.01	3,383,546.08
Others		24,361.13	136,085.47
		<u>2,651,595.11</u>	<u>4,171,680.15</u>

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

(2) Flood prevention levy is paid at 0.05% to 0.13% of taxable revenue (VAT, Business tax, consumption tax and resources tax).

Other liabilities decreased by RMB1,302 thousand, representing a decrease of 34%, mainly resulting from the decrease of flood prevention levy rate from 0.13% to 0.05% for the commercial enterprises of the Group in the current year.

Notes to the Accounting Statements

23. Other payables

(1) Break down of other payables as at 31 December 2003

	31 December 2003	31 December 2002
Deposits	8,975,189.47	8,780,521.04
Technology improvement	1,236,707.46	5,768,611.34
Rental	518,746.38	390,321.04
Labor union fund	1,216,230.20	1,052,161.41
Staff education fund	10,443,909.59	9,813,531.62
Current accounts to external companies	35,358,597.55	51,578,116.68
Tax addition and government levies	248,990.64	1,556.10
Advance from staff	2,894,381.70	640,345.21
Labor insurance	413,811.12	609,183.24
Monetary subsidies of staff housing	14,089,890.99	2,051,227.59
Payables to Guangzhou Pharmaceutical Holdings Limited	13,813,546.79	10,806,457.07
Staff bonus and welfare fund	1,964,745.69	6,473,607.43
Centralization fund	11,937,942.10	14,212,615.04
Operator incentive fund	3,800,000.00	5,522,549.41
Payables to Communication Bank Guangzhou Branch (Collected on behalf)	79,954,738.54	—
Estimated payment for fixed assets	9,883,917.00	—
Others	2,867,751.06	6,368,891.68
	<u>199,619,096.28</u>	<u>124,069,695.90</u>

(2) Among the other payable accounts, the amount payable to the shareholder who holds 5% or above of the total share was payable to the Holding RMB13,813,546.79.

(3) Other payables as at 31 December 2003 increased by 75,549 thousand, representing an increase of 61%. The increment is from payables to Communication Bank Guangzhou Branch, mainly because Guangzhou Pharmaceuticals Corporation, a subsidiary, has sold part of its accounts receivable to the bank for quick cash turnaround by signing an agreement, and thereafter assisted the bank with fund collection as stated in the agreement. The closing balance represented the amount collected on behalf but not returned to the bank.

Notes to the Accounting Statements

24. Accrued expenses

	31 December 2003	31 December 2002
Interest on loan	675,992.25	683,341.90
Rental	408,735.53	539,648.30
Audit fee	2,000,000.00	3,250,000.00
Flood prevention project	139,981.86	—
Advertising expense	911,582.91	—
Others	320,000.00	152,116.62
	<u>4,456,292.55</u>	<u>4,625,106.82</u>

25. Portion of long-term liabilities due within one year

Long-term liabilities due within 1 year at end of 2003 amounted to RMB30,000,000.00, which was guaranteed by the Company.

26. Long-term loans

Lender	Period	Interest rate per annum	31 December 2003	Security
ICBC Guangzhou No. 1 Branch	2003.07~222005.07.21	4.94%	20,000,000.00	Guaranty
ICBC Guangzhou No. 13 Sub-branch	2003.1.6~2006.1.2	5.49%	59,500,000.00	Mortgage
China Construction Bank Liwun Branch	2002.12.2~2005.12.2	5.49%	27,680,000.00	Guaranty
			<u>107,180,000.00</u>	

Long-term loan at end of 2003 increased by 17,500 thousand, representing an increase of 20%. The main reasons are: (1) Guangzhou Pangaoshou Pharmaceutical Co. Ltd., a subsidiary, borrowed 27,500 thousand from bank for its GMP renovation project; (2) Guangzhou Zhongyi Pharmaceutical Co., Ltd. borrowed 20,000 thousand from bank for relocation of Yunpu workshop.

27. Payables due after one years

Creditor	Content	31 December 2003	31 December 2002
Guangzhou Finance Bureau	State dividends	2,732,919.49	2,732,919.49
Others		883,863.68	886,978.12
		<u>3,616,783.17</u>	<u>3,619,897.61</u>

Notes to the Accounting Statements

28. Government grants payable

	31 December 2003	31 December 2002
Government appropriation as science and technology fund	28,402,491.94	20,719,649.94
Interest subsidies of government	16,926,405.54	1,468,638.24
Special fund for technology export	925,000.00	25,000.00
GMP relocation project-draining project	640,000.00	680,000.00
	<u>46,893,897.48</u>	<u>22,893,288.18</u>

Balance at end of 2003 increased by RMB24,001 thousand than 2002, representing an increase of 105%, mainly resulting from the special appropriation of 22,292 thousand from Guangzhou Finance Bureau in the current year.

29. Share Capital

Item	31 December 2002	Addition	Decrease	31 December 2003
Shares owned by the State	513,000,000.00	—	—	513,000,000.00
Domestic public shares	78,000,000.00	—	—	78,000,000.00
Overseas public shares	219,900,000.00	—	—	219,900,000.00
	<u>810,900,000.00</u>	<u>—</u>	<u>—</u>	<u>810,900,000.00</u>

The share capital of the Company has been verified by Guangzhou Yangcheng Certified Public Accountants Co., Ltd. with a capital verification report with ref. [2001] YYZ No. 4526.

30. Capital Surplus

	31 December 2002	Addition	Decrease	31 December 2003
Share premium	912,565,150.29	3,564,622.18	—	916,129,772.47
Provision for donation				
in the form of non-cash	1,773,107.29	—	—	1,773,107.29
Donation in the form of cash	219,652.84	—	—	219,652.84
Transfer from appropriation	14,206,086.32	253,730.00	—	14,459,816.32
Other capital surplus	185,196,334.81	1,419,625.59	—	186,615,960.40
Exchange gain on foreign currency capital	373,893.09	—	—	373,893.09
	<u>1,114,334,224.64</u>	<u>5,237,977.77</u>	<u>—</u>	<u>1,119,572,202.41</u>

Notes to the Accounting Statements

Capital surplus increased by RMB5,237 thousand, mainly due to:

- (1) The increment of provision for equity investment comes from the Group's proportion of share premium from new shareholder in the capital increment of Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd. in April 2003.
- (2) The increase of transfer from appropriation represents the special fund for technology export appropriated by Guangzhou Finance Bureau to Guangzhou Chenliji Pharmaceutical Factory and Guangzhou Huanye Pharmaceutical Co., Ltd., which was transferred to the account of capital surplus;
- (3) Other capital surplus is mainly accounts payable that should not be paid.

31. Reserve fund

	31 December 2002	Addition	Decrease	31 December 2003
Statutory reserve fund	160,635,151.61	33,016,287.34	306,675.31	193,344,763.64
Statutory public welfare fund	109,728,912.38	24,892,774.22	163,126.19	134,458,560.41
Discretionary reserve fund	61,092,288.10	22,761,364.18	184,786.33	83,668,865.95
Transfer from tax exemption	4,973,493.07	—	—	4,973,493.07
	<u>336,429,845.16</u>	<u>80,670,425.74</u>	<u>654,587.83</u>	<u>416,445,683.07</u>

- (1) The addition mainly represented the reserve fund based on the current net profit. According to the resolution of Session 20 of the second meeting of the board of directors, the Company accrued statutory reserve fund and statutory public welfare fund at the rate of 10% and 5% of the profit after tax respectively; the industrial enterprises subordinate to the Company accrued statutory reserve fund, statutory public welfare fund and discretionary reserve fund and at the same rate of 10% of the profit after tax; the commercial enterprises subordinate to the Company accrued statutory reserve fund and statutory public welfare fund at the rate of 10% of the profit after tax and discretionary reserve fund at the rate of 20% of the profit after tax.
- (2) The reduction represented the beginning reserve fund with an amount of 675,985.05 of the subsidiaries that are eliminated from the altered consolidation scope after the Company changed its consolidation scope in the current year.

32. Undistributed profit

Please refer to Consolidated Profit Appropriation Statement for the details of undistributed profit.

- (1) In accordance with the "Accounting System for Business Enterprises-Events Occurring after the Balance Sheet Date" promulgated by the Ministry of Finance on April 14, 2003, the Group made retroactive adjustment on the cash dividends in the profit distribution plan made by the board of directors between the balance sheet date and the date on which the financial reports are authorized for issue (See Article 6 of Notes to the Consolidated Accounting Statements).

Notes to the Accounting Statements

- (2) Guangzhou Pharmaceutical Import & Export Corporation, a subsidiary, used to hold 100% of the share of Guangzhou Yongxin Medicine Trading Company and assigned 90% of it to external party in August 2003. The Group has taken the subsidiary's related income, cost and profit from the beginning of the reporting period to the assigning date into the current consolidated income statement, while the related assets, liabilities and equities are not considered in the consolidated balance sheet at the period-end. That is, the balance of the reserve fund of the Group did not include the beginning balance of Guangzhou Yongxin Medicine Trading Company with a sum of 675,985.05 and correspondingly the beginning balance of undistributed profit was raised by the same amount.
- (3) The profit distribution policy of the Company is stated in Note 5.
- (4) In accordance with the dividends allocation plan for the year 2002, the Company allocated RMB0.06 per share, therefore the total dividends allocated summed up to 48,654,000.00 at the total share of 810,900,000.

33. Revenue from main operations

	2003	2002
(1) Manufacturing	<u>1,889,214,683.01</u>	<u>1,743,449,746.47</u>
(2) Trading		
Wholesale	4,544,133,795.01	3,794,685,908.00
Retail	354,437,902.37	307,500,860.52
Import & export sales	<u>184,176,865.82</u>	<u>98,186,815.52</u>
	<u>5,082,748,563.20</u>	<u>4,200,373,584.04</u>
	<u>6,971,963,246.21</u>	<u>5,943,823,330.51</u>

Sales from the top five customers totals to RMB388,692,569.74, representing 5.58% of the total net sales.

34. Cost of main operations

	2003	2002
(1) Manufacturing and selling	<u>880,274,084.73</u>	<u>789,366,023.51</u>
(2) Trading		
Wholesale	4,250,863,145.85	3,524,050,881.74
Retail	270,293,631.73	227,241,620.52
Import & export sales	<u>173,950,632.26</u>	<u>89,784,466.45</u>
	<u>4,695,107,409.84</u>	<u>3,841,076,968.71</u>
	<u>5,575,381,494.57</u>	<u>4,630,442,992.22</u>

Notes to the Accounting Statements

35. Sales tax and levies

	2003	2002
Business tax	820,395.64	650,094.22
City construction tax	16,185,358.55	16,372,409.64
Education surcharge	6,852,172.95	6,751,985.69
Others	9,994.13	196,570.57
	<u>23,867,921.27</u>	<u>23,971,060.12</u>

36. Profit from other operations

	2003	2002
(1) Income from other operations		
Rental	33,362,108.14	35,521,912.81
Sales of raw materials	4,198,632.65	1,645,826.79
Warehouse rental and conference fee	3,706,150.13	230,954.96
Import and export agency charge	318,018.27	695,978.20
Income of member store	633,927.34	341,000.00
Products promotion income	2,386,347.53	2,699,778.97
Consultancy income	6,593,540.01	3,199,388.44
Others	1,297,774.61	1,339,829.29
	<u>52,496,498.68</u>	<u>45,674,669.46</u>
(2) Cost of other operations		
Rental	4,338,101.44	5,029,383.20
Sales of raw materials	3,147,317.56	5,478,554.09
Tax payable and sur-tax	1,106,800.99	852,020.38
Others	572,700.94	2,515,687.41
	<u>9,164,920.93</u>	<u>13,875,645.08</u>
	<u>43,331,577.75</u>	<u>31,799,024.38</u>

Profit from other operations increased by RMB11,533 thousand compared with that of 2003 representing an increase of 36% which due to:

- (1) The group performed market research on new products for medicine manufacturers in the current year, and the consulting income was increased by 3,394 thousand.
- (2) The group rented part of warehouses in the current year, and renting income was increased by 3,577 thousand accordingly.

Notes to the Accounting Statements

37. Financial expenses

	2003	2002
Net interest expense	20,236,580.46	14,091,898.54
Exchange loss	266,959.39	186,310.31
Financial institution charges	1,623,259.20	1,041,175.39
Others	73,364.94	9,781.29
	<u>22,200,163.99</u>	<u>15,329,165.53</u>

The financial expense increased by RMB6,871 thousand, representing an increase of 45% compared to that of last year. The reason is that the loans increased in 2003.

38. Investment income

	2003	2002
Stock investment	294,447.72	78,094.09
Debt investment		
Debenture	698,950.74	—
Consigned loan	—	—
Other debt investment	—	3,150,000.00
Profit from associate enterprises or joint-ventures	4,872,521.97	5,394,255.36
Net increase or decrease of stock investment under equity method	(5,410,972.27)	(2,475,585.78)
Provision for impairment of investment	1,290,053.23	(23,045,616.22)
Disposal income of stock investment	969,762.78	—
	<u>2,714,764.17</u>	<u>(16,898,852.55)</u>

- (1) There is an increase of the current investment income of RMB19,614 thousand than that of last year, mainly because the Group accrued provision for impairment of 22,096 thousand for the investment on Guangdong Xinghua Health Drink Co., Ltd. last year. The Group sold the equity interest and recorded the difference, RMB934 thousand, between the transfer proceeds and the book amount of the investment as current investment income.
- (2) The Group recorded the attributable share of Golden Eagle Asset Management Co.'s net loss as investment loss with an amount of RMB4,671 thousand.
- (3) The proceeds from equity interests transfer of Guangzhou Yongxin Medicine Trading Co., Ltd. amounted to RMB800 thousand in the current year.

Notes to the Accounting Statements

39. Non-operating income

Items	2003	2002
Net profit from disposal of fixed assets	384,949.31	617,288.05
Sales of obsolete material	88,308.85	7,758.14
Fine	58,014.50	56,099.15
MTR removal compensation	603,472.42	1,563,295.02
Compensation for dismantling	519,520.00	—
Transfer gain	466,555.00	—
Others	495,823.91	614,223.24
	<u>2,616,643.99</u>	<u>2,858,663.60</u>

40. Non-operating expenses

	2003	2002
Net loss on disposal of fixed assets	5,303,043.39	11,322,791.63
Provision for impairment of fixed assets	1,263,270.00	11,802,296.39
Donation	3,814,592.99	1,553,131.13
Fine	153,383.69	404,519.41
Exceptional loss	—	4,227.75
Urban dyke protecting expenses	5,130,331.66	2,846,536.82
Family control bonus	923,350.13	147,071.00
Others	306,275.58	1,300,233.01
	<u>16,894,247.44</u>	<u>29,380,807.14</u>

The non-operating expenses for 2003 decreased by RMB12,487,000, representing a drop of 42% as compared with 2002, because the Group made provision of RMB1,263,000 for assets impairment in 2003, in comparison with the amount of RMB11,802,000 made in 2002, representing a reduction of RMB10,539,000 as compared with 2002.

41. Extraordinary gain or loss

	2003
Gain or loss from disposal of long-term equity investment	(3,014,823.54)
Government subsidies	276,208.28
Gain or loss from short-term investment	738,155.98
Gain or loss from consigned investment	—
Non-operating income	2,231,694.68
Non-operating expense less the accrued provision for assets impairment	(10,327,934.05)
Reversal of provision for impairment accrued in previous year	3,489,907.18
	<u>(6,606,791.47)</u>

Notes to the Accounting Statements

42. Other cash received relating to operating activities

Main Item	2003 (RMB'000)
Non-operating income	2,272
Interest income	12,175
Financial subsidies	23,078
Discount income	30,321
Meeting fee collected on behalf	8,365

43. Cash paid relating to other operating activities

Main item	2003 (RMB'000)
Selling expenses paid in cash	333,634
General and administrative expenses paid in cash	278,634
Non-operating expense	10,321
Financial expense-bank charge	1,697
Meeting expense paid on behalf	8,310

8. Notes to the Accounts of the Company (amounts are in RMB unless otherwise stated)

1. Other receivables

(1) Aging analysis of other receivable as at 31 December 2003

Age	Balance	31 December 2003		
		Proportion to the total	Bad debts provision	Accrual proportion
Within 1 year	129,998,940.69	40.65%	—	—
1~2 years	24,461,984.40	7.65%	—	—
2~3 years	82,625,413.97	25.84%	—	—
3~4 years	22,298,715.76	6.97%	—	—
4~5 years	59,900,000.00	18.73%	—	—
Over 5 years	502,843.54	0.16%	502,043.54	99.84%
	<u>319,787,898.36</u>	100%	<u>502,043.54</u>	0.16%
Age	Balance	31 December 2002		
		Proportion to the total	Bad debts provision	Accrual proportion
Within 1 year	25,411,541.19	8.88%	—	—
1~2 years	119,059,174.05	41.60%	—	—
2~3 years	63,853,054.95	22.31%	—	—
3~4 years	76,443,870.77	26.71%	—	—
4~5 years	1,425,486.08	0.50%	401,634.83	28.18%
Over 5 years	800.00	—	—	—
	<u>286,193,927.04</u>	100.00%	<u>401,634.83</u>	0.14%

Within the aforesaid balance, receivables due from shareholders holding 5% or above of the total shares include those receivable from the Holding with an amount of 5,889,426.36.

Notes to the Accounting Statements

2. Long-term equity investments

Name of investee	Cost	Holding percentage	Accumulated increase (decrease) of the equity	31 December 2003
Guangzhou Xingqun Pharmaceutical Co., Ltd.	125,322,318.71	88.99%	55,184,875.40	180,507,194.11
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	156,209,321.79	90.36%	144,405,305.21	300,614,627.00
Guangzhou Chenliji Pharmaceutical Factory	98,465,344.60	100.00%	91,079,904.31	189,545,248.91
Guangzhou Qixing Pharmaceutical Factory	126,775,482.62	100.00%	36,412,786.15	163,188,268.77
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,814.94	88.40%	(12,677,043.73)	88,812,771.21
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	144,298,132.51	87.77%	11,483,228.36	155,781,360.87
Guangzhou Yangcheng Pharmaceutical Co., Ltd.	102,035,124.44	92.48%	28,707,063.83	130,742,188.27
Guangzhou Pharmaceuticals Corporation	230,189,155.53	90.09%	122,169,082.66	352,358,238.19
Guangzhou Chinese Medicine Corporation	69,051,978.34	100.00%	23,179,160.64	92,231,138.98
Guangzhou Pharmaceutical Import & Export Corporation	17,957,328.73	100.00%	1,863,849.74	19,821,178.47
Guangzhou Huanye Pharmaceutical Co., Ltd.	15,331,246.76	59.70%	(19,169.22)	15,312,077.54
Guangzhou Bio-Technology Co., Ltd.	66,500,000.00	94.86%	(6,861,577.59)	59,638,422.41
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	45,000,000.00	54.04%	(6,520,567.15)	38,479,432.85
Nanhai Nanfang Packing Company Limited	30,000,000.00	21.42%	—	30,000,000.00
Jihua Medical Apparatus Company Limited	3,000,000.00	24.00%	(1,027,947.21)	1,972,052.79
Guoyao Group Industrial Co., Ltd.	8,000,000.00	10.00%	—	8,000,000.00
Golden Eagle Asset Management Co.	20,000,000.00	20.00%	(4,671,376.60)	15,328,623.40
Guangzhou Jinshen Pharmaceutical Co., Ltd.	675,000.00	45.00%	—	675,000.00
Everbright Bank	10,725,000.00	0.30%	—	10,725,000.00
	<u>1,371,025,248.97</u>		<u>482,707,574.80</u>	<u>1,853,732,823.77</u>

Notes to the Accounting Statements

3. Income from investment

	2003	2002
Stock investment	281,205.24	(2,002,393.21)
Debt investment		
Debenture	698,950.74	—
Entrusted loan	—	—
Other debt investment	—	—
Profit from associate enterprises or joint-ventures	4,324,345.00	3,992,165.00
Net increase or decrease of stock investment under equity method	160,534,295.00	176,646,830.31
Provision for impairment of investment	689,236.76	—
	166,528,032.74	178,636,602.10

9. Related Party Relationships & Transactions

(1) Related parties with control relationship

Name	Registered address	Principal 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 Xingqun Pharmaceutical Co., Ltd.	252 Renmin Central Road Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Li Xinghua
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	77 Shanmulan Road Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	Mai Qijie
Guangzhou Chenliji Pharmaceutical Factory	1688 Guangzhou Dadao Guangzhou	Production and sales	Subsidiary	Controlled by the State	Li Guoju
Guangzhou Qixing Pharmaceutical Factory	33 Cigang North Street, Xingang Central Road, Guangzhou	Production and sales	Subsidiary	Controlled by the State	Wen Xianwen
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 Pangaoshou Pharmaceutical Co., Ltd.	618~620 Jiefang North Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Liu Runfa
Guangzhou Yangcheng Pharmaceutical Co., Ltd.	Bridge side, Jiang Village, Baiyun District, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Shi Shaobin
Guangzhou Pharmaceuticals Corporation	97 Datong Road, Guangzhou	Wholesale and retail	Subsidiary	Company with limited liability	Feng Zansheng
Guangzhou Chinese Medicine Corporation	140 Guangfu South Road, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Su Degui

Notes to the Accounting Statements

Name	Registered address	Principal business	Relationship with the Company	Economic nature and type	Legal representative
Guangzhou Pharmaceutical Import & Export Corporation	59 Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Tu Kejin
Guangzhou Huanye Pharmaceutical Co., Ltd.	195 Fangcun Dadao East, Fangcun District, Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	Feng Jinglin
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	134 Jiangnan Dadao Central, Haizhu District, Guangzhou	Wholesale & retail, research & development	Subsidiary	Company with limited liabilities	Zhou Yuejin
Guangzhou Bio-Technology Co., Ltd.	Room 412, 134 Jiangnan Dadao Central, Haizhu District, Guangzhou	Wholesale & retail, research & development	Subsidiary	Company with limited liabilities	Zhang Mingsen

(2) Registered capital (paid-in capital) of related parties with control relationship and its change

Company name	31 December 2002 RMB'000	Addition RMB'000	Decrease RMB'000	31 December 2003 RMB'000
Guangzhou Pharmaceutical Holdings Limited	1,007,700	—	—	1,007,700
Guangzhou Xingqun Pharmaceutical Co., Ltd.	77,170	—	—	77,170
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	—	—	166,000
Guangzhou Chenliji Pharmaceutical Factory	94,000	—	—	94,000
Guangzhou Qixing Pharmaceutical Factory	82,420	—	—	82,420
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	86,230	—	—	86,230
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	65,440	—	—	65,440
Guangzhou Yangcheng Pharmaceutical Co., Ltd.	106,380	—	—	106,380
Guangzhou Pharmaceuticals Corporation	222,000	—	—	222,000
Guangzhou Chinese Medicine Corporation	69,700	—	—	69,700
Guangzhou Pharmaceutical Import & Export Corporation	15,000	—	—	15,000
Guangzhou Huanye Pharmaceutical Co., Ltd.	6,000	—	—	6,000
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	50,000	33,280	—	83,280
Guangzhou Bio-Technology Co., Ltd.	50,000	20,100	—	70,100

Notes to the Accounting Statements

(3) Shareholding or equity interest held by related parties with control relationship and its change

Company name	31 December 2002		Addition		Reduction		31 December 2003	
	Amount RMB'000	%	Amount RMB'000	%	Amount RMB'000	%	Amount RMB'000	%
Guangzhou Pharmaceutical Holdings Company Limited	513,000	63.26	—	—	—	—	513,000	63.26
Guangzhou Xingqun Pharmaceutical Co., Ltd.	68,670	88.99	—	—	—	—	68,670	88.99
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	150,000	90.36	—	—	—	—	150,000	90.36
Guangzhou Chenliji Pharmaceutical Factory	94,000	100	—	—	—	—	94,000	100
Guangzhou Qixing Pharmaceutical Factory	82,420	100	—	—	—	—	82,420	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	76,230	88.40	—	—	—	—	76,230	88.40
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	57,440	87.77	—	—	—	—	57,440	87.77
Guangzhou Yangcheng Pharmaceutical Co., Ltd.	98,380	92.48	—	—	—	—	98,380	92.48
Guangzhou Pharmaceuticals Corporation	200,000	90.09	—	—	—	—	200,000	90.09
Guangzhou Chinese Medicine Corporation	69,700	100	—	—	—	—	69,700	100
Guangzhou Pharmaceutical Import & Export Corporation	15,000	100	—	—	—	—	15,000	100
Guangzhou Huanye Pharmaceutical Co., Ltd.	3,580	59.70	—	—	—	—	3,580	59.70
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	45,000	90.00	—	—	—	35.96	45,000	54.04
Guangzhou Bio-Technology Co., Ltd.	46,400	92.80	20,100	2.07	—	—	66,500	94.87

Notes to the Accounting Statements

(4) Related party transactions

1. Nature of related parties with no control relationship

Name	Relationship with the Company
Guangzhou Qiaoguang Pharmaceutical Factory	Fellow subsidiary
Guangzhou Mingxing Pharmaceutical Factory	Fellow subsidiary
Guangzhou Tianxin Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Hejigong Pharmaceutical Factory	Fellow subsidiary
Guangzhou Guanghua Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Medicinal Glasses Factory	Fellow subsidiary
Guangzhou Pharmaceutical Machinery Factory	Fellow subsidiary
Guangzhou Sanitation Production Factory	Fellow subsidiary
Guangzhou South-china Medical Appliance Co., Ltd.	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Pharmaceutical Trade Center	Fellow subsidiary
Guangzhou Pharmaceutical Holdings Limited	
Ying Bang Marketing Co., Ltd.	Fellow subsidiary
Guangzhou Pharmaceutical Economic	
Development Company	Fellow subsidiary
Baolian Development Company Limited	Fellow subsidiary
Guangzhou Zhongfu Medical Company Limited	Associated company
Guangzhou Medical Industry Research Center	Fellow subsidiary
Guangzhou Medical Industry Design Institute	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

Notes to the Accounting Statements

2. Purchase of goods

Company name	2003 RMB'000	2002 RMB'000
Guangzhou Qiaoguang Pharmaceutical Factory	26,602	15,798
Guangzhou Mingxing Pharmaceutical Factory	24,975	18,106
Guangzhou Tianxin Pharmaceutical Company Limited	6,815	6,259
Guangzhou Hejigong Pharmaceutical Factory	3,081	1,264
Guangzhou Guanghua Pharmaceutical Company Limited	29,538	26,480
Guangzhou Medicinal Glasses Factory	413	—
Guangzhou Sanitation Production Factory	4,581	6,611
Guangzhou South-china Medical Appliance Co., Ltd.	124	60
Guangzhou Pharmaceutical Goods and Supply Company	19	—
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	46,395	34,074
Guangzhou Pharmaceutical Economic Development Company	15	—
Baolian Development Company Limited	6,244	1,601
Guangzhou Baiyunshan Enterprise Group	109	—
Guangzhou Baiyunshan Pharmaceutical Factory	785	181
Guangzhou Baiyunshan Chinese Medicine Factory	3,601	306
Guangzhou Baiyunshan External Use Medicine Factory	—	150
	<u>153,297</u>	<u>110,890</u>

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

Notes to the Accounting Statements

3. Sales of goods

Company name	2003 RMB'000	2002 RMB'000
Guangzhou Qiaoguang Pharmaceutical Factory	37,068	29,800
Guangzhou Mingxing Pharmaceutical Factory	1,424	397
Guangzhou Tianxin Pharmaceutical Company Limited	17,776	8,567
Guangzhou Hejigong Pharmaceutical Factory	1,066	—
Guangzhou Guanghua Pharmaceutical Company Limited	2,767	1,917
Guangzhou Sanitation Production Factory	1,544	2,488
Guangzhou South-china Medical Appliance Co., Ltd.	1	—
Guangzhou Pharmaceutical Goods and Supply Company	152	288
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	19,839	29,767
Guangzhou Zhongfu Medical Company Limited	1,459	1,853
Guangzhou Medical Industry Research Center	62	—
Guangzhou Baiyunshan Enterprise Group	—	5,927
Guangzhou Baiyunshan Pharmaceutical Factory	22,756	5,045
Guangzhou Baiyunshan Chinese Medicine Factory	1,352	824
	107,266	87,504

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

4. Receivables and payables

Company name	31 December 2003 RMB'000	31 December 2002 RMB'000
Accounts receivable:		
Guangzhou Qiaoguang Pharmaceutical Factory	5,572	7,237
Guangzhou Mingxing Pharmaceutical Factory	288	2
Guangzhou Tianxin Pharmaceutical Company Limited	3,140	918
Guangzhou Hejigong Pharmaceutical Factory	18	17
Guangzhou Guanghua Pharmaceutical Company Limited	434	337
Guangzhou Sanitation Production Factory	329	1,142
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	1,763	3,507
Guangzhou Pharmaceutical Economic Development Company	26	—
Guangzhou Zhongfu Medical Company Limited	188	477
Guangzhou Baiyunshan Enterprise Group	0	6,414
Guangzhou Baiyunshan Pharmaceutical Factory	7,766	—
Guangzhou Baiyunshan Chinese Medicine Factory	852	370

Notes to the Accounting Statements

Accounts payable:

Guangzhou Qiaoguang Pharmaceutical Factory	987	20
Guangzhou Mingxing Pharmaceutical Factory	487	59
Guangzhou Tianxi Pharmaceutical Company Limited	438	322
Guangzhou Hejigong Pharmaceutical Factory	106	127
Guangzhou Guanghua Pharmaceutical Company Limited	782	584
Guangzhou Sanitation Production Factory	962	345
Gunagzhou South-china Medical Appliance Co., Ltd.	23	—
Guangzhou Pharmaceutical Goods and Supply Company	22	—
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.	844	517
Baolian Development Company Limited	17	—
Guangdong Xinhua Health Drinks Company Limited	361	3,311
Guangzhou Medical Industry Research Center	18	18
Guangzhou Baiyunshan Pharmaceutical Factory	47	—
Guangzhou Baiyunshan Chinese Medicine Factory	297	24

Other receivables:

Guangzhou Pharmaceutical Holdings Company Limited	7,227	8,130
Guangzhou Qiaoguang Pharmaceutical Factory	—	197
Guangzhou Pharmaceutical Machinery Factory	—	33
Gunagzhou South-china Medical Appliance Co., Ltd.	100	100
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.	5,000	5,030
Baolian Development Company Limited	8,222	5,796
Guangzhou Zhongfu Medical Company Limited	3	—

Other payables:

Guangzhou Pharmaceutical Holdings Company Limited	13,814	10,806
Guangzhou Zhongfu Medical Company Limited	207	—
Guangzhou Medical Industry Research Center	831	—
Guangzhou Qiaoguang Pharmaceutical Factory	—	36
Guangzhou Pharmaceutical Goods and Supply Company	—	1,024

Notes to the Accounting Statements

5. Provision or receipt of services

Item	Note	2003 RMB'000	2002 RMB'000
Service fee on staff housing	[1]	361	463
Comprehensive service fee	[2]	857	522
		<u>1,218</u>	<u>985</u>

Note[1] Pursuant to the Accommodation Service Agreement entered into by the Group and the Holding on 1 September 1997 and supplemented by a notice dated 31 December 1997, the Holding has agreed providing continuously staff quarters to the employees of the Company. The Company agreed to pay a service fee equal to 6% of the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.

Note[2] Pursuant to the Composite Services Agreement entered into by the Company and the Holding on 1 September 1997, the Holding agreed to provide certain welfare facilities to the Group. The Company agreed to be responsible for the operation, management and maintenance of the facilities and pay a 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 fee rate of the previous year. The Composite Service Agreement will expire on 31 December 2007.

6. Rental

Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Group and the Holding on 1 September 1997, the Holding has granted to the Company the right to use certain premises such as warehouses and offices (the term for offices is 3 years and will be renewed when expired) at a fixed annual rate (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; other property tenancy agreements will expire on 1 September 2007.

Pursuant to the Office Tenancy Agreement entered into by the Group and the Holding on 6 February 2004 from 1 January 2003, the Company rents the back tower of the Holding's building at No. 45 Shamian Beijie 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), the lease shall be expired until the rental prepayment is fully utilized.

The Group shall pay such rental charges of RMB3,242 thousand for the current period (2002: RMB2,621 thousand).

7. License fee

Pursuant to the Trademark License Agreement entered into by the Group and the Holding on 1 September 1997, the Holding has granted the Company an exclusive right to use 38 trademarks owned by the Holding for a term of 10 years commencing at the signature date. The Company agreed to pay license fees for the use of the trademarks at 0.1% of its aggregate net sales. The Trademark License Agreement will expire on 1 September 2007. The Group shall pay the above License fee of RMB7,542 thousand for the current period (2002: RMB5,879 thousand).

Notes to the Accounting Statements

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 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 payment of RMB6,000 thousand to the Holding during the year. The advance 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 shall be expired until the advance payment is fully utilized. The Company has prepaid such rental charges of RMB5,448 thousand as at December 31, 2003.

X. Contingent events

1) The Group

At 31 December 2003, the Group does not provide any guarantee to external parties.

2) The Company

As at 31 December 2003, the Company has provided guarantee for the following subsidiaries:

Company guaranteed	Guaranty content	Amount RMB'000	Term
Guangzhou Pharmaceuticals Corporation	Working capital	360,000	1 year
Guangzhou Pharmaceuticals Corporation	Discounts of bank acceptance	71,500	1 year
Guangzhou Chinese Medicine Corporation	Working capital	35,000	1 year
Guangzhou Chinese Medicine Corporation	Discounts of bank acceptance	29,520	1 year
Guangzhou Pharmaceutical Import & Export Corporation	Working capital	22,000	1 year
Guangzhou Pharmaceutical Import & Export Corporation	Guarantee for credit facility	3,110	1 year
Total		<u>521,130</u>	

Notes to the Accounting Statements

11. Commitments

Up to 31 December 2003, material commitments of the Group are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Contracted but not provided for construction in progress and machinery and equipment	231,101	159,643
Lease commitment for non-cancellable contracts	69,355	49,675
Contracted but not provided for-unit trust	—	8,000

12. Non-adjusting events occurring after the balance sheet date

- In accordance with the Stock Transfer Contract sign between the Company and GPHL on 6 February 2004, GPHL sold 51% of its equity interests in Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd. to the Company. The Company has paid 3,888,713.99 on a lump-sum basis to the Holding for the equity interests transfer on 27 February 2004, thereby obtaining 51% of the stock of Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd..
- Proposed by the board of directors, profit distribution plan for the year 2003 is: the Company plans to allocate RMB0.06 per share, therefore the total dividends to be allocated sums up to RMB48,654,000.00 at the total shares of 810,900,000.

13. Debt restructuring events

Up to 31 December 2003, there are no debt restructuring events in the Group.

14. Non-monetary transactions

Up to 31 December 2003, there are no material non-monetary transactions in the Group.

15. Other significant events

The Group decided to liquidate Shenzhen Lan Zhao Biological Co., Ltd. and Guangzhen Chen Li Ji Co., Ltd. in 2004.

16 AN ANALYSIS ON SIGNIFICANT CHANGES IN THE ITEMS OF THE ACCOUNTS

The items in the Group's consolidated balance sheet as at 31 December 2003, which recorded a change of 30% or more as compared with that as at 31 December 2002 and accounted for 5% or more of the Group's total assets as at 31 December 2003 and those items in the consolidated profit and loss accounts for the year which recorded a change of 30% or more and accounted for 10% or more of the Group's total profit for the year are set out as follows:

Items	2003 <i>RMB</i>	2002 <i>RMB</i>	Differences	
			Amount <i>RMB</i>	Change %
Profit from other operations	43,331,577.75	31,799,024.38	11,532,553.37	36.27
Net cash flow from operating activities	(6,830,395.98)	169,014,289.92	(175,844,685.90)	(104.04)

Notes to the Accounting Statements

- (1) Profit from other operations for 2003 recorded increased by RMB11,533,000, representing a growth of 36.27% compared with that of 2002, which was contributed by the consulting fees of RMB3,394,000 from market research for new products on behalf of the manufacturers conducted by the Group and rental income of RMB3,577,000 from warehouses leased to others.
- (2) Net cash flow from operating activities for 2003 decreased by 104.04% as compared with that of 2002, which was mainly due to the increase in accounts receivable and inventory of the Group as at 31 December 2003.

17. EXPLANATIONS OF DIFFERENCE IN NET ASSETS AND NET PROFITS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP

	Note	Group	
		31 December 2003 RMB'000	As restated As at 31 December 2002 RMB'000
Net assets under PRC accounting standards and systems		2,429,476	2,335,583
Provision for bad debts	1	—	(26,067)
Intangible asset capitalised	2	58,571	69,017
Difference in fixed assets revaluation	3	132,808	134,783
Overprovision of research and development cost	4	—	4,228
Provision for employee benefits	5	(66,782)	(71,762)
Deferred taxation	6	12,708	26,590
Reversal of payables write-off	10	—	(5,144)
Difference in minority interests	11	(15,364)	(13,148)
Net assets under HK GAAP		2,551,417	2,454,080
		2003 RMB'000	As restated 2002 RMB'000
Net profit under PRC accounting standards and systems		139,795	158,478
Amortisation of intangible asset capitalised	2	(10,446)	(10,446)
Additional depreciation on revalued fixed assets	3	(1,975)	(1,975)
Research and development cost undercharged	4	(4,228)	(8,530)
Government subsidies recognised as income	7	290	3,600
Reversal/(Provision) of employee benefits	5	4,980	(71,762)
(Reversal)/Provision of deferred taxation	6	(13,882)	30,341
Provision for staff bonus and welfare fund	9	(2,507)	(2,144)
Reversal of bad debts provision	1	26,067	—
Income arising from dilution of interest in a subsidiary	8	3,565	—
Payables write-off recognised as income	10	7,224	—
Difference in minority interests	11	(2,216)	3,593
Net profit under HK GAAP		146,667	101,155

Notes to the Accounting Statements

Explanations for differences:

1. This is the provision for bad debts made under HK GAAP in prior years. It has been taken up in the accounts prepared under PRC accounting standards and systems in 2003 or it has an indication to prove that bad debts previously written-off can be recovered. Therefore, provision for bad debts was released under HK GAAP in 2003.
2. This is an amortisation of staff quarter reform costs incurred by the Group prior to 2000 in relation to purchases of staff quarters by its employees. Under HK GAAP, such cost are recognised as an asset and are subject to amortisation on a straight line basis over a period of not more than 10 years to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC accounting standards and systems, the staff quarter reform costs are written off against retained earnings when it incurred.
3. The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing of the Company's H shares. Although the revaluation has been taken into the accounts of the Group prepared under HK GAAP, this is not acceptable to the accounts prepared under PRC accounting standards and systems. Accordingly, the depreciation charge under HK GAAP is higher than that calculated under PRC accounting standards and systems as the depreciation charge under HK GAAP is based on the revalued amount of fixed assets.
4. Prior to 2003, the Company made provision for research and development cost based on certain percentage on turnover in the accounts prepared in accordance with PRC accounting standards and systems. In 2003, the Company changed its accounting policy in respect of provision for research and development cost, which is to recognise a provision in light of a legal or constructive obligation and reliable estimate. This is consistent with HK GAAP. Provision for research and development cost made under PRC accounting standards and systems in 2002 but used in 2003 has been taken up in the profit and loss account prepared under HK GAAP in 2003.
5. On 1 December 2001, the Group has participate in a medical insurance scheme set up and managed by the Guangzhou People's Municipal Government as required by the Provisional Rules of Medical Insurance issues by the Guangzhou People's Municipal Government. Medical insurance relating to contributions accrued for the past service rendered by the retired and retiring employees are recognized as expenses in prior years under HK GAAP. However, in the accounts prepared under PRC accounting standards and systems, medical insurance for the past service is recognised as expenses on cash basis. Cash basis is not acceptable to HK GAAP.
6. The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, deferred tax is accounted for using the balance sheet liability method on all taxable temporary differences for deferred tax liability, and to recognise deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Notes to the Accounting Statements

7. Government subsidies are recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, government subsidies are recognised as other income in the profit and loss account and is transferred from profit after taxation to capital reserve.
8. Income arising from dilution of interest in a subsidiary is recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, it is recognised as other income in the profit and loss account and is transferred from profit after taxation to capital reserve.
9. This is staff bonus and welfare fund appropriated from profit after taxation in the accounts prepared under PRC accounting standards and systems. Under HK GAAP, it is recognised as expenses in the profit and loss account.
10. Payables write-off is recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, it is recognised as other income in the profit and loss account and is transferred from profit after taxation to capital reserve.
11. This is resulted from the above difference in the accounts prepared under PRC accounting standards and systems and HK GAAP.

International Auditor's Report

TO THE SHAREHOLDERS OF GUANGZHOU PHARMACEUTICAL COMPANY LIMITED

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

We have audited the accounts on pages 109 to 155 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003
(Prepared in accordance with HK GAAP)

		2003	As restated 2002
	<i>Note</i>	Rmb'000	<i>Rmb'000</i>
Turnover	2	6,973,113	5,943,823
Cost of sales		(5,576,164)	(4,630,443)
Gross profit		1,396,949	1,313,380
Other revenue	2	74,923	68,373
Distribution costs		(504,230)	(442,051)
Administrative expenses		(606,298)	(677,678)
Other operating expenses		(19,807)	(13,735)
Operating profit	3	341,537	248,289
Finance costs	4	(34,172)	(28,804)
Share of profits less losses of			
Jointly controlled entities		—	(23,435)
Associated companies		464	310
Profit before taxation		307,829	196,360
Taxation	5	(148,393)	(82,892)
Profit after taxation		159,436	113,468
Minority interests		(12,769)	(12,313)
Net profit for the year		146,667	101,155
Dividends	22(c)	48,654	48,654
Earnings per share	7	Rmb0.181	Rmb0.125

Consolidated Balance Sheet

As at 31 December 2003
(Prepared in accordance with HK GAAP)

		2003	As restated 2002
	Note	Rmb'000	Rmb'000
Non-current assets			
Intangible assets	9	61,483	69,017
Fixed assets	10	1,231,917	1,032,234
Construction in progress	11	305,929	236,616
Interests in joint ventures	13	—	6,208
Interests in associated companies	14	5,292	2,930
Investment securities	15	68,873	77,802
Deferred tax assets	24	56,533	72,462
		<u>1,730,027</u>	<u>1,497,269</u>
Current assets			
Inventories	17	1,067,900	848,519
Trade and other receivables	18	1,289,775	983,325
Trading securities	16	49,500	61,194
Bank balances and cash		816,889	1,019,903
		<u>3,224,064</u>	<u>2,912,941</u>
Current liabilities			
Trade and other payables	19	1,271,128	1,004,416
Taxation payable		44,825	48,774
Current portion of long-term liabilities	23	30,000	—
Short-term bank loans	20	664,230	555,340
		<u>2,010,183</u>	<u>1,608,530</u>
Net current assets		<u>1,213,881</u>	<u>1,304,411</u>
Total assets less current liabilities		<u>2,943,908</u>	<u>2,801,680</u>
Financed by:			
Share capital	21	810,900	810,900
Reserves	22	1,740,517	1,643,180
Shareholders' funds		2,551,417	2,454,080
Minority interests		182,627	149,072
Non-current liabilities			
Long-term liabilities	23	107,180	89,680
Employee benefits	26	58,858	62,975
Deferred tax liabilities	24	43,826	45,873
		<u>2,943,908</u>	<u>2,801,680</u>
Cai Zhixiang	Li Yimin		
Director	Director		
		<u>2,943,908</u>	<u>2,801,680</u>

Balance Sheet

As at 31 December 2003
(Prepared in accordance with HK GAAP)

		2003	As restated 2002
	Note	<i>Rmb'000</i>	<i>Rmb'000</i>
Non-current assets			
Intangible assets	9	1,458	1,701
Fixed assets	10	21,740	19,620
Construction in progress	11	—	4,330
Investments in subsidiaries	12	1,504,535	1,484,435
Investment in associated companies		2,648	—
Investment securities	15	68,527	70,725
		<u>1,598,908</u>	<u>1,580,811</u>
Current assets			
Other receivables	18	382,125	342,543
Trading securities	16	49,500	61,194
Bank balances and cash		231,542	204,624
		<u>663,167</u>	<u>608,361</u>
Current liabilities			
Other payables	19	50,363	20,492
Taxation payable		—	407
		<u>50,363</u>	<u>20,899</u>
Net current assets		<u>612,804</u>	<u>587,462</u>
Total assets less current liabilities		<u>2,211,712</u>	<u>2,168,273</u>
Financed by:			
Share capital	21	810,900	810,900
Reserves	22	1,400,812	1,357,373
Cai Zhixiang	Li Yimin		
Director	Director		
		<u>2,211,712</u>	<u>2,168,273</u>

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003
(Prepared in accordance with HK GAAP)

	Note	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Total equity at 1 January, as previously reported		2,455,066	2,408,430
Effect of changes in accounting policies	22	<u>(986)</u>	<u>(7,580)</u>
Total equity at 1 January, as restated		2,454,080	2,400,850
Profit for the year	22	146,667	101,155
Release from reserves upon disposal of a subsidiary	22	(676)	—
Dividends	22	(48,654)	(48,654)
Share issue expenses	22	<u>—</u>	<u>729</u>
Total equity at 31 December		<u><u>2,551,417</u></u>	<u><u>2,454,080</u></u>

Consolidated Cash Flow Statement

For the year ended 31 December 2003
(Prepared in accordance with HK GAAP)

		2003	As restated 2002
	Note	Rmb'000	Rmb'000
Cash generated from operations	25(a)	106,268	273,711
Interest paid		(34,252)	(27,918)
Taxation paid-PRC enterprise income tax		(131,633)	(94,200)
Net cash (outflow) / inflow generated from operating activities		<u>(59,617)</u>	<u>151,593</u>
Investing activities			
Purchase of fixed assets		(46,620)	(100,936)
Payments for construction in progress		(314,313)	(134,255)
Purchase of intangible assets		(2,980)	—
Sale of fixed assets		5,254	11,072
Sale of a subsidiary, net of cash disposed	25 (d)	1,569	—
Government grants received		23,075	30,968
Interest received		11,202	13,475
Purchase of a subsidiary, net of cash acquired		—	2,285
Dividends received from investments		3,671	4,652
Dividends received from an associated company		281	182
Sale of trading securities		20,000	3,151
Purchase of trading securities		(8,000)	—
Proceeds received from disposal of a joint venture		—	173
Purchase of associated companies		(1,675)	—
Purchase of investment securities		(150)	(29,468)
Net cash outflow from investing activities		<u>(308,686)</u>	<u>(198,701)</u>
Net cash outflow before financing activities		<u>(368,303)</u>	<u>(47,108)</u>
Financing activities	25(b)		
Capital contribution from minority shareholders		7,650	6,545
New loans payable		882,685	662,310
Repayment of amounts borrowed		(646,340)	(461,820)
Dividends paid		(48,654)	(48,654)
Dividends paid to minority shareholders		(8,933)	(6,285)
Net cash inflow from financing activities		<u>186,408</u>	<u>152,096</u>
(Decrease)/increase in cash and cash equivalents		(181,895)	104,988
Cash and cash equivalents at 1 January		998,784	893,796
Cash and cash equivalents at 31 December	25(e)	<u>816,889</u>	<u>998,784</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies

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

(a) Basis of preparation

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

In the current year, the Group adopted SSAP 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in Note(I).

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies (continued)

(b) Group accounting (continued)

(ii) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

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

(iii) Associated companies

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

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

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

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

(iv) Translation of foreign currencies

The Company and its principal subsidiaries maintain their books and records in Renminbi ("Rmb").

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies (continued)

(c) Intangibles

(i) Goodwill/negative goodwill

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

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

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

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

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

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition.

(ii) Patents

Expenditure on acquired patents is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Patents are not revalued as there is no active market for these assets.

(iii) Staff quarters reform costs

Staff quarters reform costs are expenditures incurred by the Group prior to year 2000 in relation to purchases of staff quarters by its employees. Such costs are recognised as an asset. These costs are amortised on a straight-line basis over a period of not more than 10 years to reflect the estimated remaining average service life of the employees of the Group in which the related economic benefits are recognised.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies (continued)

(c) Intangibles (continued)

(iv) Research and development costs

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

(v) Impairment of intangible assets

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

(d) Fixed assets

(i) Investment properties

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

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

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

(ii) Property, plant and equipment

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

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies (continued)

(d) Fixed assets (continued)

(ii) Property, plant and equipment (continued)

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

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

(iii) Impairment and gain or loss on sale

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

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(iv) Construction in progress

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

1 Principal accounting policies *(continued)*

(e) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(f) Operating leases

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

(g) Investments in securities

(i) Investment securities

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

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

(ii) Trading securities

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies (continued)

(h) Inventories

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

(i) Accounts receivable

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

(j) Cash and cash equivalents

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

(k) Employee benefits

(i) Pension obligation

The Group's contributions to the defined contribution retirement scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered by the employees.

(ii) Housing benefit

The Group's contributions to the housing fund scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered by the employees.

Costs of the housing allowance scheme designed and implemented by the Group are expensed when a legal or constructive obligation is established.

(iii) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme organised by the Guangzhou People's Municipal Government for existing employees are expensed when services are rendered by the employees.

Contributions to the defined contribution medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

Further information of the Group's employee benefits is set out in Note 26.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies (continued)

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 22 to the accounts, opening retained earnings at 1 January 2002 and 2003 have been increased by Rmb37,550,000 and Rmb43,492,000, respectively, which represent the unprovided net deferred tax assets. Capital reserve at 1 January 2002 and 2003 have been reduced by Rmb45,130,000 and Rmb44,478,000, respectively, which represent the unprovided deferred tax liabilities on the revaluation surplus arising from the revaluation of fixed assets in 1997. The combined effect has resulted in an increase in deferred tax assets and deferred tax liabilities as at 31 December 2002 by Rmb49,075,000 and Rmb45,873,000, respectively and an increase in the profit for the year ended 31 December 2002 by Rmb6,594,000.

(m) Contingent liabilities and contingent assets

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

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

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 Principal accounting policies (continued)

(n) Revenue recognition

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

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

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

Royalty income is recognised on an accrual basis.

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

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

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

(o) Borrowing costs

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

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

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format. No geographical segments are presented unless the turnover and results attributable to the markets outside the PRC are more than 10% of the Group's consolidated turnover and consolidated results.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets, fixed assets and construction in progress, including additions resulting from acquisition through purchase of subsidiaries.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

2 Turnover, revenue and segment information

The Group is principally engaged in the manufacturing and sales of Chinese Patent Medicine (“CPM”) and the wholesale, retail, import and export of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus. Revenues recognised during the year are as follows:

	2003	2002
	Rmb'000	Rmb'000
Turnover:		
Sales of goods	<u>6,973,113</u>	<u>5,943,823</u>
Other revenues:		
Government grants and subsidies	290	8,432
Income arising from dilution of interest in a subsidiary	3,565	—
Income arising from disposal of a joint venture	934	—
Income arising from disposal of a subsidiary	1,786	—
Interest income	11,210	13,475
Gross rental income from investment properties	21,286	21,347
Gross rental income from other properties	9,201	11,060
Promotional income from suppliers	12,947	8,556
Royalty income	1,600	851
Dividend income from unlisted investments	4,880	4,652
Others	7,224	—
	<u>74,923</u>	<u>68,373</u>
Total revenue	<u>7,048,036</u>	<u>6,012,196</u>

The Group is organised into the following business segments:

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

2 Turnover, revenue and segment information (continued)

	Year ended 31 December 2003					Group Rmb'000
	Manufacturing Rmb'000	Wholesale Rmb'000	Retail Rmb'000	Import and export Rmb'000	Elimination Rmb'000	
Turnover						
External	1,890,364	4,544,134	354,438	184,177	—	6,973,113
Internal	27,648	189,671	17,015	33,568	(267,902)	—
Total	<u>1,918,012</u>	<u>4,733,805</u>	<u>371,453</u>	<u>217,745</u>	<u>(267,902)</u>	<u>6,973,113</u>
Segment results	<u>280,038</u>	<u>95,055</u>	<u>5,205</u>	<u>1,565</u>	<u>(12,445)</u>	369,418
Unallocated costs						(27,881)
Operating profit						341,537
Finance costs						(34,172)
Share of profits less losses of – Associated companies	464					464
Profit before taxation						307,829
Taxation						(148,393)
Profit after taxation						159,436
Minority interests						(12,769)
Net profit						<u>146,667</u>
Segment assets	2,193,747	2,004,166	179,183	120,949	(309,913)	4,188,132
Interests in associated companies	2,644					2,644
Unallocated assets						763,315
Total assets						<u>4,954,091</u>
Segment liabilities	658,459	1,642,500	63,367	71,444	(309,913)	2,125,857
Unallocated liabilities						94,190
Total liabilities						<u>2,220,047</u>
Capital expenditure	303,812	54,732	4,145	665		363,354
Depreciation	80,901	20,481	4,064	209		105,655
Amortisation charge	7,469	3,015	—	30		10,514
Impairment charge	<u>1,186</u>	<u>—</u>	<u>—</u>	<u>—</u>		<u>1,186</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

2 Turnover, revenue and segment information (continued)

	Year ended 31 December 2002 (As restated)					Group Rmb'000
	Manufacturing Rmb'000	Wholesale Rmb'000	Retail Rmb'000	Import and export Rmb'000	Elimination Rmb'000	
Turnover						
External	1,743,449	3,794,686	307,501	98,187	—	5,943,823
Internal	25,585	250,757	8,944	28,280	(313,566)	—
Total	<u>1,769,034</u>	<u>4,045,443</u>	<u>316,445</u>	<u>126,467</u>	<u>(313,566)</u>	<u>5,943,823</u>
Segment results	<u>194,804</u>	<u>74,691</u>	<u>7,653</u>	<u>2,670</u>	<u>(11,625)</u>	268,193
Unallocated costs						(19,904)
Operating profit						248,289
Finance costs						(28,804)
Share of profits less losses of						
– Jointly controlled entities	(23,435)					(23,435)
– Associated companies	310					310
Profit before taxation						196,360
Taxation						(82,892)
Profit after taxation						113,468
Minority interests						(12,313)
Net profit						<u>101,155</u>
Segment assets	2,006,187	1,684,881	180,333	80,524	(271,614)	3,680,311
Interests in joint ventures	6,208					6,208
Interests in associated companies	2,930					2,930
Unallocated assets						720,761
Total assets						<u>4,410,210</u>
Segment liabilities	506,391	1,322,774	65,997	69,765	(271,614)	1,693,313
Unallocated liabilities						113,745
Total liabilities						<u>1,807,058</u>
Capital expenditure	219,521	26,174	6,487	311		252,493
Depreciation	67,337	16,295	5,408	201		89,241
Amortisation charge	7,401	3,015	—	30		10,446
Impairment charge	<u>18,099</u>	<u>1,930</u>	<u>—</u>	<u>—</u>		<u>20,029</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

3 Operating profit

Operating profit is stated after charging and crediting the following:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Charging:		
Depreciation and amortisation of fixed assets	105,655	89,241
Amortisation of intangible assets	10,514	10,446
Impairment charge of fixed assets (Note a)	1,186	20,029
Impairment charge of investment securities (Note c)	4,671	—
Outgoings in respect of investment properties	4,030	4,037
Outgoings in respect of other properties	1,840	2,212
Loss on disposal of fixed assets	4,917	3,696
Loss on disposal of a joint venture	—	16
Realised losses on disposal of trading securities	—	1,929
Unrealised losses on trading securities	—	1,714
Research and development costs	35,536	26,500
Auditors' remuneration	3,180	3,187
Staff costs:		
Pension benefit (Note 26(a))	58,311	50,537
Housing fund (Note 26(b))	22,113	12,066
Medical insurance (Note 26(c))	24,244	97,233
Housing allowances (Note 26(d))	19,290	7,817
Salaries, wages and other staff benefits	436,145	412,808
Operating leases for land and buildings	<u>30,716</u>	<u>27,315</u>
Crediting:		
Reversal of impairment charge of trading securities (Note b)	690	—
Recovery of bad debts previously written off	9,437	—
Reversal of write-down of inventories	<u>—</u>	<u>785</u>

Note:

- (a) Impairment charge mainly arose as a result of technology upgrade, modernisation of production facilities and significant decline in market value of the assets.
- (b) Reversal of impairment charge of trading securities was a result of the increase in market values of the securities (Note 16).
- (c) Impairment charge of investment securities was a result of the decrease in fair value at balance sheet date.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

4 Finance costs

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Interest on bank loans	37,385	27,918
Other incidental borrowing costs	1,966	1,244
Total borrowing costs incurred	39,351	29,162
Less: interest capitalised in construction in progress	(5,179)	(358)
	<u>34,172</u>	<u>28,804</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.49% (2002: 5.49%).

5 Taxation

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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Current taxation:		
- PRC enterprise income tax	134,425	113,123
Deferred taxation relating to the origination and reversal of temporary differences	13,882	(30,341)
	<u>148,307</u>	<u>82,782</u>
Share of taxation attributable to:		
- Jointly controlled entities	—	—
- Associated companies	86	110
	<u>86</u>	<u>110</u>
Taxation charges	<u>148,393</u>	<u>82,892</u>

The PRC enterprise income tax has been provided at the principal rate of 33% (2002: 33%) on the estimated assessable profit for the year.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

5 Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the PRC enterprise income tax as follows:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Profit before taxation	<u>307,829</u>	196,360
Calculated at a taxation rate of 33% (2002: 33%)	<u>101,584</u>	64,799
Effect of different taxation rates in a subsidiary	(2,488)	(2,666)
Income not subject to taxation	(13,350)	(6,371)
Expenses not deductible for taxation purposes	63,995	50,217
Tax refund	<u>(1,348)</u>	(23,087)
Taxation charges	<u><u>148,393</u></u>	<u><u>82,892</u></u>

An amount of Rmb1,348,000 relating to income tax credits granted for a reason of qualified purchase of domestic equipment has been net off against the taxation charges for the year 2003.

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 attributable to local government (i.e., 60% of the 18% of tax) was refunded. Accordingly, the effective income tax refund rate of 2001 was 10.8%. The Company and its major subsidiaries were effectively taxed at 22.2% in the year 2001.

An amount of Rmb23,087,000 relating to the said tax refund for tax paid during the second half of 2001 was received and net off against the taxation charges for the year 2002.

There is no such income tax refund since 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 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of Rmb67,000,000 (2002: Rmb42,910,000).

7 Earnings per share

The calculation of earnings per share for the year ended 31 December 2003 is based on the net profit of Rmb146,667,000 (2002: Rmb101,155,000) and the 810,900,000 shares (2002: 810,900,000 shares) in issue.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

8 Directors' and senior management's emoluments

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

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

	2003	2002
	Rmb'000	Rmb'000
Fees		
Executive directors	—	—
Non-executive directors	309	313
Supervisors	—	—
Other emoluments for executive directors		
Basic salaries, allowances and benefits in kind	866	865
Bonuses	2,438	1,863
Retirement benefits	57	49
Other emoluments for supervisors		
Basic salaries, allowances and benefits in kind	242	273
Bonuses	321	288
Retirement benefits	14	12
Other emoluments for senior management		
Basic salaries, allowances and benefits in kind	370	383
Bonuses	489	875
Retirement benefits	28	26
	5,134	4,947

The emoluments for each of the Company's directors (executive and non-executive), supervisors and senior management, totalling 15 individuals (2002: 16 individuals) are within the band of Nil to Rmb1,000,000 for the years ended 31 December 2003 and 31 December 2002.

No director, supervisor or senior management waived emoluments in respect of the years ended 31 December 2003 and 31 December 2002.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

8 Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2002: two) individual during the year are as follows:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Basic salaries, allowances and benefits in kind	140	456
Bonuses	690	1,118
Retirement benefits	14	25
	<u>844</u>	<u>1,599</u>

The emoluments fell within the following band:

	Number of individuals	
	2003	2002
Emolument bands		
Nil - Rmb1,000,000	1	1
Rmb1,000,001 - Rmb1,500,000	<u>—</u>	<u>1</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

9 Intangible assets

	Staff quarters reform costs <i>Rmb'000</i>	Group	
		Patent <i>Rmb'000</i>	Total <i>Rmb'000</i>
For the year ended 31 December 2003			
Net book value at 1 January 2003	69,017	—	69,017
Additions	—	2,980	2,980
Amortisation charge	(10,446)	(68)	(10,514)
Net book value at 31 December 2003	<u>58,571</u>	<u>2,912</u>	<u>61,483</u>
At 31 December 2003			
Cost	104,467	2,980	107,447
Accumulated amortisation	(45,896)	(68)	(45,964)
Net book value	<u>58,571</u>	<u>2,912</u>	<u>61,483</u>
At 31 December 2002			
Cost	104,467	—	104,467
Accumulated amortisation	(35,450)	—	(35,450)
Net book value	<u>69,017</u>	<u>—</u>	<u>69,017</u>
Company			
		2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Staff quarters reform costs			
Net book value at 1 January		1,701	1,944
Amortisation charge		(243)	(243)
Net book value at 31 December		<u>1,458</u>	<u>1,701</u>
At 31 December			
Cost		2,524	2,524
Accumulated amortisation		(1,066)	(823)
Net book value		<u>1,458</u>	<u>1,701</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

10 Fixed assets

Group

	Investment properties <i>Rmb'000</i>	Land use rights <i>Rmb'000</i>	Buildings <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost or valuation						
At 1 January 2003	8,712	108,569	758,538	604,877	76,858	1,557,554
Additions	—	651	30,861	24,986	16,514	73,012
Transfer from construction in progress	—	—	179,836	61,298	2,549	243,683
Disposals	—	—	(8,558)	(26,908)	(4,701)	(40,167)
At 31 December 2003	8,712	109,220	960,677	664,253	91,220	1,834,082
Accumulated depreciation and amortisation						
At 1 January 2003	—	14,753	159,920	304,047	46,600	525,320
Charge for the year	—	3,383	40,480	52,888	8,904	105,655
Impairment charge (Note 3)	—	—	—	1,186	—	1,186
Disposals	—	—	(1,856)	(24,327)	(3,813)	(29,996)
At 31 December 2003	—	18,136	198,544	333,794	51,691	602,165
Net book value						
At 31 December 2003	8,712	91,084	762,133	330,459	39,529	1,231,917
At 31 December 2002	8,712	93,816	598,618	300,830	30,258	1,032,234

The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:

At cost	—	109,220	960,677	664,253	91,220	1,825,370
At 2003 valuation	8,712	—	—	—	—	8,712
	8,712	109,220	960,677	664,253	91,220	1,834,082

The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:

At cost	—	108,569	758,538	604,877	76,858	1,548,842
At 2002 valuation	8,712	—	—	—	—	8,712
	8,712	108,569	758,538	604,877	76,858	1,557,554

Notes to the Accounts

(Prepared in accordance with HK GAAP)

10 Fixed assets (continued)

Company

	Buildings <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost				
At 1 January 2003	24,028	10,970	662	35,660
Additions	1,027	5,184	868	7,079
Disposals	—	(247)	—	(247)
At 31 December 2003	25,055	15,907	1,530	42,492
Accumulated depreciation				
At 1 January 2003	11,169	4,706	165	16,040
Charge for the year	2,307	2,471	134	4,912
Disposals	—	(200)	—	(200)
At 31 December 2003	13,476	6,977	299	20,752
Net book value				
At 31 December 2003	11,579	8,930	1,231	21,740
At 31 December 2002	12,859	6,264	497	19,620

All of the Group's investment properties and buildings are located in the PRC, except for a property with a net book value of Rmb9,919,000 (2002: Rmb10,282,000) which is located in Hong Kong. The land use rights of the land where the Group's investment properties and buildings situated in the PRC were granted by the State Land Administration Bureau of Guangzhou for a period of 20 to 50 years.

Investment properties have been revalued at their open market value by Mr. K.K. Ip of Greater China Appraisal Limited, an independent valuer, at 31 December 2003. Mr. K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

At 31 December 2003, the net book value of fixed assets pledged as security for the Group's bank loans amounted to Rmb118,400,000 (2002: Rmb118,030,000).

Notes to the Accounts

(Prepared in accordance with HK GAAP)

11 Construction in progress

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
At 1 January	236,616	174,212	4,330	—
Additions	312,996	134,255	—	4,330
Acquisition of a subsidiary	—	363	—	—
Transfer to fixed assets	(243,683)	(72,214)	(4,330)	—
At 31 December	<u>305,929</u>	<u>236,616</u>	<u>—</u>	<u>4,330</u>

Construction in progress included interest capitalised amounted to Rmb62,540 (2002: Rmb13,487,000).

Government grants of Rmb1,317,000 relating to the construction of fixed assets are deducted from the carrying amount of the assets.

12 Investments in subsidiaries

	Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Unlisted shares, at cost	<u>1,504,535</u>	<u>1,484,435</u>

Particulars of principal subsidiaries are set out in Note 30.

13 Interests in joint ventures

Jointly controlled entities

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Share of net assets	<u>—</u>	<u>6,208</u>
Unlisted shares, at cost	<u>—</u>	<u>39,644</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

14 Interests in associated companies

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Share of net assets	5,292	2,930
Unlisted shares, at cost	5,469	2,338

At 31 December 2003 the Group held shares in the following major associated companies:

Name	Particulars of equity held	Place of establishment/ registration	% of equity interest	Principal activities
Guangzhou Zhong Fu Medical Co., Ltd.	Registered capital: Rmb800,000	PRC	50	Production of CPM
Ming Tai Enterprise (Thailand) Ltd.	Ordinary shares of Baht1 each	Thailand	35.1	Dormant
Guangzhou Jihua Bio-chemical Co., Ltd.	Registered capital; Rmb10,000,000	PRC	24	Development, manufacture and sales of medical apparatus and instruments
PT. Purusa Bhakti	Ordinary shares of US\$1 each	Indonesia	45.6	Dormant
Guangzhou Jinshen Medical Co., Ltd.	Registered capital: Rmb1,500,000	PRC	45	Production of healthcare medicine

Notes to the Accounts

(Prepared in accordance with HK GAAP)

15 Investment securities

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Unlisted equity securities	<u>68,873</u>	<u>77,802</u>	<u>68,527</u>	<u>70,725</u>

At 31 December 2003 and 2002, all investment securities were stated at cost less any provision for impairment losses.

The amount of provision for the unlisted equity securities at 31 December 2003 was Rmb4,671,000 (2002: Nil).

16 Trading securities

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Equity securities, listed in the PRC	3,565	2,742	3,565	2,742
Other unlisted investments	<u>45,935</u>	<u>58,452</u>	<u>45,935</u>	<u>58,452</u>
	<u>49,500</u>	<u>61,194</u>	<u>49,500</u>	<u>61,194</u>
Market value of listed investments	<u>4,476</u>	<u>2,742</u>	<u>4,476</u>	<u>2,742</u>

17 Inventories

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Raw materials	116,341	106,295
Work-in-progress	62,652	35,134
Finished goods	80,768	85,135
Merchandise	802,337	613,929
Production supplies	<u>5,802</u>	<u>8,026</u>
	<u>1,067,900</u>	<u>848,519</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

18 Trade and other receivables

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Trade receivables (Note a)	930,728	689,976	—	—
Other receivables and prepayments	335,238	274,599	7,840	5,593
Due from:				
Joint ventures (Note b)	—	3,400	—	—
Associated companies (Note b)	—	3,420	—	—
Subsidiaries (Note c)	—	—	307,991	271,013
Ultimate holding company and fellow subsidiaries (Note b)	23,809	11,930	3,795	9,186
Dividend receivable from subsidiaries	—	—	62,499	56,751
	<u>1,289,775</u>	<u>983,325</u>	<u>382,125</u>	<u>342,543</u>

- (a) Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of the trade receivables net of doubtful debt provision at 31 December 2003 is as follows:

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Within 6 months	860,302	646,977
6 months to 1 year	53,452	39,972
Over 1 year	16,974	3,027
	<u>930,728</u>	<u>689,976</u>

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

- (b) The amounts due are unsecured, interest free and repayable on demand.
- (c) The amounts due are unsecured, interest bearing at commercial market rate and repayable on demand.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

19 Trade and other payables

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Trade payables (Note a)	857,682	663,105	—	—
Due to subsidiaries (Note b)	—	—	36,407	344
Due to ultimate holding company (Note b)	13,762	14,099	—	—
Other payables and accrued charges	399,684	327,212	13,956	20,148
	<u>1,271,128</u>	<u>1,004,416</u>	<u>50,363</u>	<u>20,492</u>

(a) The ageing analysis of the trade payables at 31 December 2003 is as follows:

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Within 1 year	811,038	617,433
1 year to 2 years	17,399	13,695
Over 2 years	29,245	31,977
	<u>857,682</u>	<u>663,105</u>

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

20 Short-term bank loans

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Secured	148,300	155,000
Unsecured	515,930	400,340
	<u>664,230</u>	<u>555,340</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

21 Share capital

	Registered, issued and fully paid			
	2003		2002	
	No. of shares	Rmb'000	No. of shares	Rmb'000
State Shares	513,000,000	513,000	513,000,000	513,000
H Shares	219,900,000	219,900	219,900,000	219,900
A Shares	78,000,000	78,000	78,000,000	78,000
Total	810,900,000	810,900	810,900,000	810,900

22 Reserves

	Group						
	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare	Discretionary surplus reserve	Retained earnings	Total
	Rmb'000	(Note a) Rmb'000	(Note b) Rmb'000	(Note b) Rmb'000	(Note b) Rmb'000	Rmb'000	Rmb'000
At 1 January 2002, as previously reported	780,405	440,151	120,402	92,758	37,861	125,953	1,597,530
Changes in accounting policy - provision for net deferred tax liabilities (Note 24)	—	(51,861)	—	—	—	44,281	(7,580)
At 1 January 2002, as restated	780,405	388,290	120,402	92,758	37,861	170,234	1,589,950
2001 Final dividend paid	—	—	—	—	—	(48,654)	(48,654)
Profit for the year	—	—	—	—	—	101,155	101,155
Transfers	—	1,881	40,233	16,971	28,205	(87,290)	—
Overprovision of share issue expenses	729	—	—	—	—	—	729
At 31 December 2002	781,134	390,171	160,635	109,729	66,066	135,445	1,643,180
Representing:							
2002 Final dividend proposed (Note c)						48,654	
Others						86,791	
Retained earnings at 31 December 2002						<u>135,445</u>	
The Company and subsidiaries	781,134	390,171	160,635	109,729	66,066	172,394	1,680,129
Jointly controlled entities	—	—	—	—	—	(35,602)	(35,602)
Associated companies	—	—	—	—	—	(1,347)	(1,347)
	<u>781,134</u>	<u>390,171</u>	<u>160,635</u>	<u>109,729</u>	<u>66,066</u>	<u>135,445</u>	<u>1,643,180</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

22 Reserves (continued)

	Group						
	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare	Discretionary surplus reserve	Retained earnings	Total
	Rmb'000	(Note a) Rmb'000	(Note b) Rmb'000	(Note b) Rmb'000	(Note b) Rmb'000	Rmb'000	Rmb'000
At 1 January 2003, as previously reported	781,134	443,355	160,635	109,729	66,066	83,247	1,644,166
Change in accounting policy - provision for net deferred tax liabilities (Note 24)	—	(53,184)	—	—	—	52,198	(986)
At 1 January 2003, as restated	781,134	390,171	160,635	109,729	66,066	135,445	1,643,180
Profit for the year	—	—	—	—	—	146,667	146,667
2002 Final dividend paid	—	—	—	—	—	(48,654)	(48,654)
Transfers	—	7,418	33,978	24,893	21,821	(88,110)	—
Release upon disposal of a subsidiary	—	—	(307)	(163)	(206)	—	(676)
At 31 December 2003	781,134	397,589	194,306	134,459	87,681	145,348	1,740,517
Representing:							
2003 Final dividend proposed (Note c)						48,654	
Others						96,694	
Retained earnings at 31 December 2003						145,348	
The Company and subsidiaries	781,134	397,589	194,306	134,459	87,681	150,904	1,746,073
Associated companies	—	—	—	—	—	(5,556)	(5,556)
	781,134	397,589	194,306	134,459	87,681	145,348	1,740,517

Notes to the Accounts

(Prepared in accordance with HK GAAP)

22 Reserves (continued)

	Company					Total <i>Rmb'000</i>
	Share premium <i>Rmb'000</i>	Capital reserve (Note a) <i>Rmb'000</i>	Statutory surplus Reserve (Note b) <i>Rmb'000</i>	Statutory public welfare (Note b) <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	
At 1 January 2002	780,405	394,259	57,096	44,411	63,448	1,339,619
2001 Final dividend paid	—	—	—	—	(48,654)	(48,654)
Profit for the year	—	—	—	—	65,679	65,679
Transfers	—	—	15,179	7,590	(22,769)	—
Reversal of overprovision of share issue expenses	729	—	—	—	—	729
At 31 December 2002	781,134	394,259	72,275	52,001	57,704	1,357,373
Representing:						
2002 Final dividend proposed (Note c)					48,654	
Others					9,050	
Retained earnings at 31 December 2002					<u>57,704</u>	
At 1 January 2003	781,134	394,259	72,275	52,001	57,704	1,357,373
2002 Final dividend paid	—	—	—	—	(48,654)	(48,654)
Profit for the year	—	—	—	—	92,093	92,093
Transfers	—	3,565	14,352	7,176	(25,093)	—
At 31 December 2003	781,134	397,824	86,627	59,177	76,050	1,400,812
Representing:						
2003 Final dividend proposed (Note c)					48,654	
Others					27,396	
Retained earnings at 31 December 2003					<u>76,050</u>	

Notes to the Accounts

(Prepared in accordance with HK GAAP)

22 Reserves (continued)

(a) Capital reserve

Transfers from retained earnings included:

- an amount of Rmb254,000 (2002: Rmb3,204,000), which is government grants received net of minority interests during the year;
- an amount of Rmb3,565,000 (2002: Nil), which is income arising from dilution of interest in a subsidiary;
- an amount of Rmb4,922,000 (2002: Nil), which is waiver of debts net of minority interests entitled to the subsidiaries during the year.

Transfer to retained earnings was:

- an amount of Rmb1,323,000 (2002: Rmb1,323,000), which is the depreciation on revalued fixed assets net of deferred tax credits.

(b) Surplus reserve

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

Statutory surplus reserve

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

Statutory public welfare reserve

The PRC Companies are required to transfer 5% to 10% of their profit after taxation calculated in accordance with PRC accounting standards and systems to the statutory public welfare fund. The statutory public welfare fund can only be used for capital expenditure on employees' collective welfare facilities. The fund is non-distributable other than in liquidation.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

22 Reserves (continued)

(b) Surplus reserve (continued)

Discretionary surplus reserve

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

(c) Dividends

	2003 Rmb'000	2002 Rmb'000
Final, proposed, of Rmb0.06 (2002: Rmb0.06) per share	<u>48,654</u>	<u>48,654</u>

At a meeting held on 26 March 2004, the directors declared a final dividend of Rmb0.06 per ordinary share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

(d) Profit distribution

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

- (i) making up losses;
- (ii) allocation to statutory surplus reserve fund;
- (iii) allocation to statutory public welfare fund;
- (iv) allocation to discretionary surplus reserve fund - to be recommended by directors;
and
- (v) payment of dividends.

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with PRC accounting standards and systems and the amount determined in accordance with HK GAAP. The amount of retained earnings available for distribution determined in accordance with HK GAAP as at 31 December 2003 was Rmb76,050,000 (2002: Rmb57,704,000).

Notes to the Accounts

(Prepared in accordance with HK GAAP)

23 Long-term liabilities

	Group	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Bank loans		
Secured	59,500	32,000
Unsecured	77,680	57,680
	<u>137,180</u>	<u>89,680</u>
Current portion of long-term liabilities	(30,000)	—
	<u>107,180</u>	<u>89,680</u>

The analysis of the above bank loans is as follows:

Wholly repayable within five years	137,180	89,680
Not wholly repayable within five years	—	—
	<u>137,180</u>	<u>89,680</u>

At 31 December 2003, the Group's bank loans were repayable as follows:

Within one year	30,000	—
In the second year	47,680	89,680
In the third to fifth year	59,500	—
After the fifth year	—	—
	<u>137,180</u>	<u>89,680</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

24 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2002: 33%).

The movement on the deferred tax liabilities / (assets) account is as follows:

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
At 1 January	(26,589)	3,752
Deferred taxation charged / (credited) to profit and loss account (Note 5)	<u>13,882</u>	<u>(30,341)</u>
At 31 December	<u>(12,707)</u>	<u>(26,589)</u>

Deferred taxation of Rmb652,000 (2002: Rmb652,000) was transferred within shareholders' equity from revaluation reserves (Note 22 (a)) to retained earnings. This represents deferred taxation on the difference between the actual depreciation on land and buildings, plant, machinery and equipment and the equivalent depreciation based on the historical cost of land and buildings, plant, machinery and equipment.

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax assets	Provisions		Impairment of assets		Employee benefits		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January	(25,335)	(24,785)	(18,699)	(18,902)	(23,387)	—	(5,041)	(3,454)	(72,462)	(47,141)
Charged / (credited) to profit and loss account	<u>6,164</u>	<u>(550)</u>	<u>11,350</u>	<u>203</u>	<u>1,623</u>	<u>(23,387)</u>	<u>(3,208)</u>	<u>(1,587)</u>	<u>15,929</u>	<u>(25,321)</u>
At 31 December	<u>(19,171)</u>	<u>(25,335)</u>	<u>(7,349)</u>	<u>(18,699)</u>	<u>(21,764)</u>	<u>(23,387)</u>	<u>(8,249)</u>	<u>(5,041)</u>	<u>(56,533)</u>	<u>(72,462)</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

24 Deferred taxation (continued)

Deferred tax liabilities	Fixed assets revaluation		Research and development expenses		Total	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
At 1 January	44,478	45,130	1,395	5,763	45,873	50,893
Charged / (credited) to profit and loss account	(652)	(652)	(1,395)	(4,368)	(2,047)	(5,020)
At 31 December	<u>43,826</u>	<u>44,478</u>	<u>—</u>	<u>1,395</u>	<u>43,826</u>	<u>45,873</u>

The amounts shown in the balance sheet include the following:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Deferred tax assets to be recovered after more than 12 months	26,145	29,153
Deferred tax liabilities to be settled after more than 12 months	<u>43,174</u>	<u>45,221</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

25 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to cash generated from operations

	2003 <i>Rmb'000</i>	As restated 2002 <i>Rmb'000</i>
Operating profit	307,365	219,485
Amortisation of intangible assets	10,514	10,446
Depreciation and amortisation charges	105,655	89,241
Impairment charges	5,857	20,029
(Gain)/loss on disposal of a joint venture	(934)	16
Gain on disposal of a subsidiary	(1,786)	—
Realised losses on disposal of trading securities	—	1,929
Unrealised (gains)/losses on trading securities	(699)	1,714
Loss on disposal of fixed assets	4,917	3,696
Government grants recognised	—	(8,432)
Interest income	(11,210)	(13,475)
Interest expenses	34,172	27,918
Income from unlisted investments	(4,880)	(4,652)
Income arising from dilution of interest in a subsidiary	(3,565)	—
Operating profit before working capital changes	445,406	347,915
Increase in inventories	(220,060)	(11,810)
Increase in trade and other receivables	(273,606)	(200,234)
Increase in trade and other payables	154,528	74,865
Increase in employee benefits	—	62,975
Cash generated from operations	<u>106,268</u>	<u>273,711</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

25 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Bank loans and other liabilities	
	2003 Rmb'000	As restated 2002 Rmb'000	2003 Rmb'000	As restated 2002 Rmb'000	2003 Rmb'000	As restated 2002 Rmb'000
At 1 January	1,592,034	1,591,305	149,072	127,526	645,020	442,680
Reversal of overprovision of share issue expenses	—	729	—	—	—	—
Acquisition of a subsidiary	—	—	—	8,973	—	1,850
Cash contribution by minority shareholders	—	—	7,650	6,545	—	—
Non-cash contribution by minority shareholders (Note 25(c))	—	—	25,634	—	—	—
Minority interests' share of profits	—	—	12,769	12,313	—	—
Cash inflows	—	—	—	—	236,345	200,490
Dividend paid to minority shareholders	—	—	(8,933)	(6,285)	—	—
Changes arising from dilution of interest in a subsidiary	—	—	(3,565)	—	—	—
At 31 December	<u>1,592,034</u>	<u>1,592,034</u>	<u>182,627</u>	<u>149,072</u>	<u>881,365</u>	<u>645,020</u>

(c) Major non-cash transactions

During the year, Guangzhou Pharmaceutical Holdings Limited ("GZPHL") made a additional capital contribution of Rmb25,634,000 to Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd. ("GZ Hanfang"), a subsidiary of the Company. GZPHL is the minority shareholder of GZ Hanfang. The capital consideration is in form of land, buildings and machinery.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

25 Notes to the consolidated cash flow statement (continued)

(d) Disposal of a subsidiary

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Current assets	(1,174)	—
Total liabilities	(23)	—
Net assets	<u>(1,197)</u>	<u>—</u>
Net assets sold	(1,077)	—
Reclassifications from shareholders' equity - reserves (Note 22)	676	—
Proceeds from sale	4,734	—
Gain on disposal of a subsidiary	4,333	—
Less: return of investment	(2,000)	—
Net gain on disposal of a subsidiary	2,333	—
Taxation thereon	(547)	—
After-tax gain on disposal	<u>1,786</u>	<u>—</u>
The net cash inflow on sale is determined as follows:		
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Net proceeds from sale	2,734	—
Less: cash and cash equivalents in a subsidiary sold	(1,165)	—
Sales of a subsidiary, net of cash disposed	<u>1,569</u>	<u>—</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

25 Notes to the consolidated cash flow statement (continued)

(e) Analysis of balances of cash and cash equivalent

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Bank balances and cash on hand	816,889	1,019,903
Less: Deposits pledged with a bank for banking facilities granted to the Group	—	(21,119)
	<u>816,889</u>	<u>998,784</u>

26 Employee benefits

	Group	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Medical insurance scheme (Note c)	64,333	67,955
Housing allowances scheme (Note d)	12,062	4,154
	<u>76,395</u>	<u>72,109</u>
Less: Current portion of employee benefits included in other payables and accrued charges	(17,537)	(9,134)
	<u>58,858</u>	<u>62,975</u>

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in the Guangzhou City have participated in a number of defined contribution employees benefit plans for its existing and retired employees organised by the government. The Group has no other material obligation for payment of employee benefits, including any post-employment benefits, beyond the schemes as described below:

(a) Pension scheme

All employees are entitled to retirement pension benefits equal to a fixed proportion of their salary at their normal retirement age. The Group's annual obligation for payment of this pension contribution is calculated at a rate of approximately 20% based on the total salaries of its employees.

The Group has no contributions payable to the pension scheme at the year-end (2002: Nil).

26 Employee benefits *(continued)*

(b) Housing fund scheme

The Company and its subsidiaries in the PRC are obligated to make contribution to a defined contribution scheme for the housing benefit of their employees. The Group's annual obligation for payment of this housing benefit contribution is calculated at a rate of approximately 8% based on the total salaries of its employees.

The Group has no contributions payable to the housing scheme at the year-end (2002: Nil).

(c) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1 December 2001, it is mandatory for the Company and its subsidiaries in the PRC to participate in a medical insurance scheme set up and managed by the Government. Employees, included those retired employees, can be benefited from the medical insurance scheme around one month after the registration date.

The Group's annual obligations for payment of this medical insurance contribution is based on 7.5% to 8 % of the preceding year's average annual salary of the Group or the preceding year's average annual salary of the Guangzhou City, depending on the length of the employment period of the employee concerned.

(d) Housing allowances scheme

Pursuant to the resolution passed at the directors' meeting on 1 July 2002, the Group developed and implemented a housing allowance scheme, which took effect in 2002. The scheme allows the Company and its subsidiaries in the PRC to pay its employees housing allowances if the Company and its subsidiaries are able to meet the budgeted after-tax profit as determined by the board of directors. The final housing allowances payable however is limited to the difference between the actual and budgeted after-tax profit of the Company.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

27 Commitments

(a) Capital commitments

	Group	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for		
Land use rights and buildings	78,730	56,604
Plant, machinery and equipment	152,271	162,787
	<u>231,001</u>	<u>219,391</u>
Authorised but not provided for		
Land use rights	—	—
Plant, machinery and equipment	135,692	68,401
	<u>366,693</u>	<u>287,792</u>

(b) Financial commitments

	Group	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for		
Investment securities	2,850	3,000
Authorised but not provided for		
Investment in unit-trust	—	8,000

(c) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Not later than one year	21,441	20,243
Later than one year and not later than five years	32,101	22,454
Later than five years	15,813	6,978
	<u>69,355</u>	<u>49,675</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

28 Future operating lease arrangements

At 31 December 2003, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings are as follows:

	2003	2002
	Rmb'000	Rmb'000
Not later than one year	19,484	20,352
Later than one year and not later than five years	81,911	101,395
	101,395	121,747

29 Related party transactions

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

	<i>Note</i>	2003	2002
		Rmb'000	Rmb'000
Ultimate holding company			
Licence fee expense	a	7,542	5,879
Service fee expense	b	857	522
Welfare facilities fee expense	c	361	463
Rental expense	d	2,690	2,621
Capital contribution to a subsidiary of the Company	f	25,634	—
Jointly controlled entities			
Sales of semi-finished goods	e	1,177	631
Associated companies			
Sales of finished goods	e	1,460	1,853
Fellow subsidiaries			
Sales of finished goods and raw materials	e	105,806	85,020
Purchase of finished goods and raw materials	e	156,655	110,890
Purchase of buildings		—	69,071

(a) Pursuant to the Trademark Licence Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay 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 Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL's total depreciation charges of the welfare facilities in the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31 December 2007.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

29 Related party transactions (continued)

- (c) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1 September 1997 and supplemented by a notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three years at a fixed annual rent and is subject to the adjustment of standard rent as prescribed from time to time by Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement had expired on 31 August 2003.
- (e) The sales and purchase 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, GZPHL had made additional capital contribution to Guangzhou Hanfang in form of land, buildings and machinery (Note 25 (c)).

30 Principal subsidiaries

The following is a list of principal subsidiaries at 31 December 2003:

Name	% of equity interest held		Registered capital Rmb	Principal activities
	Directly	Indirectly		
Guangzhou First Chinese Medicine Company Limited ²	97.02	—	166,000,000	Production of CPM
Guangzhou Chen Li Ji Chinese Medicine Factory ¹	100.00	—	94,000,000	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory ¹	100.00	—	82,416,741	Investment Holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ³	88.40	—	86,232,345	Production of CPM
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ³	87.77	—	65,436,232	Production of CPM
Guangzhou Yang Cheng Pharmaceutical Co., Ltd. ³	92.48	—	106,378,439	Production of CPM
Guangzhou Xing Qun Pharmaceutical Co., Ltd. ³	88.99	—	77,168,904	Production of CPM
Guangzhou Pharmaceutical Corporation Limited ²	96.99	—	222,000,000	Trading of western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation ¹	100.00	—	69,700,000	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Corporation Jianmin Medicine Chain Pharmacies ¹	—	96.99	10,694,000	Wholesaling and retailing of medicine, pharmaceutical and related products
Guangzhou Guo Xin Te Pharmaceutical Miscellaneous Medicine Wholesale Company ¹	—	96.99	3,000,000	Wholesaling of miscellaneous medicine

Notes to the Accounts

(Prepared in accordance with HK GAAP)

30 Principal subsidiaries (continued)

Name	% of equity interest held		Registered capital Rmb	Principal activities
	Directly	Indirectly		
Guangzhou Jianmin Medicine Pharmaceutical Sales and Marketing Company ¹	—	96.99	500,000	Wholesaling of western patent medicine
Guangzhou Pharmaceutical Import & Export Corporation ¹	100.00	—	3,540,000	Import and export of medicine
Guangzhou Qi Xing Pharmaceutical Co., Ltd. ⁴	—	75.00	100,000,000	Production of CPM
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory ¹	—	100.00	3,113,000	Processing of healthcare beverages and drinks
Guangzhou Chinese Medicine Corporation Medical Powder and Herb Wholesale Company ¹	—	100.00	534,000	Wholesaling of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Sales and Marketing Company ¹	—	100.00	2,083,000	Wholesaling and retailing of CPM
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies ¹	—	100.00	3,934,000	Retailing of Chinese raw medicine and CPM
Guangzhou Medical Equipment and Chemical Testing Equipment Co., Ltd. ²	—	89.32	11,880,000	Wholesaling and retailing of medical apparatus and chemical testing equipment
Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd. ²	56.49	—	83,284,300	Research and development of CPM
Guangzhou Baidi Biological Pharmaceutical Co., Ltd. ²	94.86	—	70,100,000	Research and development of patented biological products
Guangzhou Huanye Medicine Co., Ltd. ²	59.70	—	6,000,000	Production of western medicine
Guangzhou Guo Ying New and Special Medicine Wholesale Company ¹	—	96.99	9,070,000	Wholesaling of medicine and healthcare products

The place of operation of the above principal subsidiaries is in the PRC.

Kind of legal entities:

- ¹ State-owned enterprise
- ² Limited company
- ³ Joint stock company
- ⁴ Sino-foreign joint venture

31 Ultimate holding company

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

32 Approval of accounts

The accounts were approved by the Board of Directors on 26 March 2004.