

7. FINANCIAL REPORT

Interim financial report prepared in accordance with PRC Accounting Standards and Systems (page 21 to 32)

Notes to the interim financial report (prepared in accordance with PRC accounting standards and systems)

Condensed interim financial report prepared in accordance with HK SSAP 25 (page 66 to 77)

CONSOLIDATED BALANCE SHEET

As at 30th June 2004

	<i>Notes</i>	30th June 2004	31st December 2003
Form 1			
<i>(RMB)</i>			
ASSETS			
Current assets:			
Cash	VI-1	861,013,185.38	816,439,041.14
Short term investments	VI-2	18,840,000.00	49,499,310.37
Notes receivable	VI-3	57,980,003.78	52,280,755.19
Dividends receivable	VI-4	4,324,345.00	6,316,510.00
Interest receivable		—	—
Accounts receivable	VI-5	1,152,103,215.38	878,361,678.85
Other receivable	VI-6	180,942,926.43	130,980,738.37
Advances to suppliers	VI-7	122,262,456.95	120,102,331.41
Subsidy receivable	VI-8	5,359,580.42	10,325,834.50
Inventories	VI-9	846,378,572.62	1,067,439,529.10
Prepaid expenses	VI-10	84,802,111.80	91,300,355.06
Long-term debentures investments due within one year		—	—
Other current assets		—	—
Total current Assets		3,334,006,397.76	3,223,046,083.99
Long-term investments			
Long-term equity investments	VI-11	78,184,066.12	74,867,192.97
Long-term debentures investments		—	—
Total long-term investments		78,184,066.12	74,867,192.97
Fixed assets			
Fixed assets—cost	VI-12	1,678,476,749.05	1,505,442,749.56
Less: Accumulated depreciation	VI-12	544,670,868.55	498,586,610.77
Fixed assets—net amount	VI-12	1,133,805,880.50	1,006,856,138.79
Less: Fixed assets impairment provision	VI-12	25,686,155.64	25,786,824.47
Fixed assets—net book value	VI-12	1,108,119,724.86	981,069,314.32
Construction supplies		—	—
Construction in progress	VI-13	239,011,825.20	305,928,588.83
Fixed assets pending disposal		—	—
Total fixed assets		1,347,131,550.06	1,286,997,903.15
Intangible assets & other assets:			
Intangible assets	VI-14	102,199,284.92	93,715,205.21
Long-term prepaid expenses	VI-15	26,473,155.36	28,413,060.66
Other long-term assets		—	—
Total intangible assets & other assets		128,672,440.28	122,128,265.87
Deferred taxes			
Deferred tax debits		—	—
TOTAL ASSETS		4,887,994,454.22	4,707,039,445.98

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30th June 2004

Form 1
(RMB)

	Notes	30th June 2004	31st December 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans	VI-16	689,120,000.00	664,230,000.00
Notes payable	VI-17	101,907,144.04	212,533,538.69
Accounts payable	VI-18	790,558,629.62	644,880,577.38
Advance from customers	VI-19	34,052,457.51	34,182,508.08
Accrued payroll		97,532,641.83	77,634,473.67
Welfare benefits payable		50,136,274.11	56,334,037.21
Dividends payable	VI-20	35,460,402.71	11,178.03
Taxes payable	VI-21	28,524,842.79	21,605,390.47
Other levies payable	VI-22	2,982,005.57	2,651,595.11
Other payables	VI-23	243,663,221.19	199,619,096.28
Accrued expenses	VI-24	7,396,467.46	4,456,292.55
Provision for foreseeable liabilities		—	—
Portion of Long-term liabilities due within one year	VI-25	20,000,000.00	30,000,000.00
Other current liabilities		—	—
Total current liabilities		2,101,334,086.83	1,948,138,687.47
Long-term liabilities:			
Long-term loans	VI-26	127,180,000.00	107,180,000.00
Debentures payable		—	—
payables due after one year	VI-27	5,024,468.21	3,616,783.17
Government grants payable	VI-28	43,288,328.85	46,893,897.48
Other long-term liabilities		5,000,000.00	5,000,000.00
Total long-term liabilities		180,492,797.06	162,690,680.65
Deferred tax			
Deferred tax credits		—	—
Total liabilities		2,281,826,883.89	2,110,829,368.12
Minority interest		192,469,608.11	166,733,695.45
Shareholders' equity:			
Share capital	VI-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	VI-30	1,120,639,137.51	1,119,572,202.41
Surplus reserve	VI-31	416,445,683.07	416,445,683.07
Including:statutory public welfare fund	VI-31	134,458,560.41	134,458,560.41
Retained earnings		65,713,141.64	82,558,496.93
Including:cash dividend		—	48,654,000.00
Total Shareholders' equity		2,413,697,962.22	2,429,476,382.41
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,887,994,454.22	4,707,039,445.98

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period ended 30th June 2004

Form 2
(RMB)

Item	Notes	Six months ended 30th June 2004	Six months ended 30th June 2003
I. Revenues from main operations	VI-32	3,990,694,132.12	3,577,432,478.96
Less: Cost of main operations	VI-33	3,272,266,127.69	2,860,794,147.40
Tax and levies on main operations	VI-34	13,694,299.51	12,620,768.40
II. Profit from main operations		704,733,704.92	704,017,563.16
Add: Profit from other operations	VI-35	18,388,152.28	19,447,910.34
Less: Selling expenses		278,658,990.85	249,893,026.21
General and administrative expenses		330,447,617.90	292,237,293.34
Financial expenses	VI-36	17,684,980.77	9,745,954.57
III. Operating profit		96,330,267.68	171,589,199.38
Add: Income from investments	VI-37	(777,440.50)	(123,373.71)
Subsidies income	VI-38	—	180,927.28
Non-operating income	VI-39	4,288,071.32	664,644.53
Less: Non-operating expenses	VI-40	8,787,439.95	9,512,472.20
IV. Total profit		91,053,458.55	162,798,925.28
Less: Income tax		52,938,643.69	60,757,080.64
Less: Minority interest		6,306,170.15	8,428,457.45
V. Net profit		31,808,644.71	93,613,387.19

SUPPLEMENTARY INFORMATION

For the period ended 30th June 2004

(RMB)

Item	Six months ended 30th June 2004				Six months ended 30th June 2003			
	Return on net assets		Earning 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	29.20%	28.82%	0.87	0.87	29.53%	29.55%	0.87	0.87
Profit from operations	3.99%	3.94%	0.12	0.12	7.20%	7.20%	0.21	0.21
Net profit	1.32%	1.30%	0.04	0.04	3.93%	3.93%	0.12	0.12
Net profit after deduction of exceptional items	1.43%	1.41%	0.04	0.04	4.16%	4.16%	0.12	0.12

CONSOLIDATED PROFIT APPROPRIATION STATEMENT

For the period ended 30th June 2004

Form 3
(RMB)

Item	Six months ended 30th June 2004	Six months ended 30th June 2003
I. Net profit	31,808,644.71	93,613,387.19
Add: Retained earnings at beginning of year	82,558,496.93	73,918,608.87
Add: Transfer from others	—	—
II. distributable profit	114,367,141.64	167,531,996.06
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
III. Profit distributable to shareholders	114,367,141.64	167,531,996.06
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	—	—
IV. Retained earnings at end of the period	65,713,141.64	118,877,996.06

CONSOLIDATED CASH FLOWS STATEMENT

For the period ended 30th June 2004

Item	Notes	Form 4	
		<i>(RMB)</i>	
		Six months ended 30th June 2004	Six months ended 30th June 2003
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services		4,405,975,434.18	3,890,239,781.74
Refund of tax and levy		9,196,604.01	2,182,901.06
Other cash received relating to operating activities	VI-41	36,225,627.84	14,351,435.07
Sub-total of cash inflows		4,451,397,666.03	3,906,774,117.87
Cash paid for goods or services		3,483,958,714.37	3,085,124,866.38
Cash paid to and on behalf of employees		250,372,211.25	231,385,890.28
Payments of all types of taxes		263,953,989.17	254,807,641.35
Other cash paid in relating to operating activities	VI-42	328,522,538.66	317,615,687.20
Sub-total of cash outflows		4,326,807,453.45	3,888,934,085.21
Net cash flows from operating activities		124,590,212.58	17,840,032.66
II. Cash flows from investing activities:			
Cash received from disposal of investments		36,152,119.73	20,000,000.00
Including: cash received from disposal of subsidiaries		160,435.24	—
Cash received from returns on investments		3,643,100.23	3,576,842.03
Net cash received from disposal of fixed assets, intangible assets and other long— term assets		354,279.64	11,351,260.33
Other cash received relating to investing activities		85,380.68	3,022,039.32
Sub-total of cash inflows		40,234,880.28	37,950,141.68
Cash paid to acquire fixed assets, intangible assets and other long— term assets		135,159,510.75	127,412,579.73
Cash paid to acquire investments		14,539,719.82	9,675,000.00
Including: cash paid to acquire subsidiaries		4,539,719.82	9,675,000.00
Other cash paid in relating to investing activities		8,000,000.00	6,763,004.20
Sub-total of cash outflows		157,699,230.57	143,850,583.93
Net cash flows from investing activities		(117,464,350.29)	(105,900,442.25)
III. Cash flows from financing activities			
Cash received from capital contribution		—	—
Cash received from capital contribution by minority shareholders		2,777,406.37	7,650,000.00
Cash received from borrowings		347,850,491.00	351,750,000.00
Other proceeds relating to financing activities		168,271,738.39	1,521,104.65
Sub-total of cash inflows		518,899,635.76	360,921,104.65
Cash repayments of amounts borrowed		321,960,491.00	329,050,000.00
Cash payments for distribution of dividends, profits or interest expenses		34,028,686.96	66,216,758.60
Cash payments for dividends to minority shareholders		5,998,300.54	5,354,198.92
Other cash payments relating to financing activities		119,463,875.31	—
Sub-total of cash outflows		481,451,353.81	400,620,957.52
Net cash flows from financing activities		37,448,281.95	(39,699,852.87)
IV. Effect of foreign exchange rate changes on cash		—	—
V. Net increase in cash and cash equivalents		44,574,144.24	(127,760,262.46)

SUPPLEMENTAL INFORMATION

Item	Six months ended 30th June 2004	Six months ended 30th June 2003
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	31,808,644.71	93,613,387.19
Minority interest	6,306,170.15	8,428,457.45
Add: Provision for assets impairment	30,116,897.77	8,982,278.32
Depreciation of fixed assets	46,454,284.69	39,234,221.87
Amortization of intangible assets	1,528,722.15	1,999,507.00
Amortization of long-term prepaid expenses	5,867,221.35	9,106,573.93
Decrease in prepaid expenses (less: increase)	6,516,308.44	(5,875,102.73)
Increase in accrued expenses (less: decrease)	2,799,574.91	10,310,462.41
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	(21,200.00)	387,123.45
Losses on scrapping of fixed assets	2,057,280.22	2,757,934.82
Financial expenses	20,652,106.09	18,675,929.35
Losses on investments (less: gains)	777,440.50	123,373.71
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	204,204,353.60	(13,687,513.08)
Decrease in operating receivables (less: increase)	(278,490,623.99)	(318,110,273.74)
Increase in operating payables (less: decrease)	43,678,982.41	161,608,129.98
Others	334,049.58	285,542.73
Net cash flows from operating activities	124,590,212.58	17,840,032.66
2. Investing and financing activities that do not involve cash receipts or payments:		
conversion of debt into capital	—	—
Convertible bonds due within 1 year	—	—
Fixed assets acquired under finance lease	—	—
3. Net increase in cash and cash equivalents:		
Cash at the end of period	861,013,185.38	892,142,916.49
Less: Cash at the beginning of the period	816,439,041.14	1,019,903,178.95
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of period	—	—
Net increase in cash and cash equivalents	44,574,144.24	(127,760,262.46)

BALANCE SHEET

As at 30th June 2004

		Form 5	
		<i>(RMB)</i>	
	<i>Notes</i>	30th June 2004	31st December 2003
ASSETS			
Current assets:			
Cash		238,206,883.97	231,542,044.04
Short term investments		18,840,000.00	49,499,310.37
Notes receivable		—	—
Dividends receivable		12,324,345.00	6,316,510.00
Interest receivable		—	—
Accounts receivable		—	—
Other receivable	VII-1	381,606,918.84	319,285,854.82
Advance to suppliers		—	—
Subsidy receivable		—	—
Inventories		—	—
Prepaid expenses		—	—
Long-term debentures investments due within one year		—	—
Other current assets		—	—
Total current Assets		650,978,147.81	606,643,719.23
Long-term investments			
Long-term equity investments	VII-2	1,806,493,175.62	1,853,732,823.78
Long-term debentures investments		—	—
Total long-term investments		1,806,493,175.62	1,853,732,823.78
Fixed assets			
Fixed assets-cost		37,374,731.52	37,407,029.02
Less: Accumulated depreciation		11,844,339.72	10,215,684.50
Fixed assets-net amount		25,530,391.80	27,191,344.52
Less: Fixed assets impairment provision		7,109,752.25	7,109,752.25
Fixed assets-net book value		18,420,639.55	20,081,592.27
Construction supplies		—	—
Construction in progress		—	—
Fixed assets pending disposal		—	—
Total fixed assets		18,420,639.55	20,081,592.27
Intangible assets & other assets:			
Intangible assets		—	—
Long-term prepaid expenses		1,404,718.56	1,997,842.14
Other long-term assets		—	—
Total intangible assets & other assets		1,404,718.56	1,997,842.14
Deferred taxes			
Deferred tax debits		—	—
TOTAL ASSETS		2,477,296,681.54	2,482,455,977.42

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30th June 2004

Form 5
(RMB)

	<i>Notes</i>	30th June 2004	31st December 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans		—	—
Notes payable		—	—
Accounts payable		—	—
Advance from customers		—	—
Accrued payroll		2,866,540.66	2,485,598.66
Welfare benefits payable		3,241,541.58	3,074,976.99
Dividends payable		35,459,999.87	11,137.00
Taxes payable		40,520.65	716,641.71
Other levies payable		702.34	13,161.85
Other payables		15,601,215.98	40,995,862.85
Accrued expenses		70,800.00	2,000,000.00
Provision for foreseeable liabilities		—	—
Portion of Long-term liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		57,281,321.08	49,297,379.06
Long-term liabilities:			
Long-term loans		—	—
Debentures payable		—	—
payables due after one year		—	—
Government grants payable		1,000,000.00	1,000,000.00
Other long-term liabilities		—	—
Total long-term liabilities		1,000,000.00	1,000,000.00
Deferred tax			
Deferred tax credits		—	—
Total liabilities		58,281,321.08	50,297,379.06
Minority interest			
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		1,120,396,452.95	1,119,405,462.95
Surplus reserve		145,803,875.54	145,803,875.54
Including: statutory public welfare fund		59,176,788.16	59,176,788.16
Retained earnings		341,915,031.97	356,049,259.87
Including: cash dividend		—	48,654,000.00
Total Shareholders' equity		2,419,015,360.46	2,432,158,598.36
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,477,296,681.54	2,482,455,977.42

PROFIT AND LOSS ACCOUNT

For the period ended 30th June 2004

Item	Notes	Form 6 (RMB)	
		Six months ended 30th June 2004	Six months ended 30th June 2003
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		1,794,856.02	(101,095.92)
Less: Selling expenses		—	—
General and administrative expenses		8,334,795.43	9,496,481.49
Financial expenses		(784,288.06)	(2,037,278.47)
III. Operating profit		(5,755,651.35)	(7,560,298.94)
Add: Income from investments	VII-3	40,364,992.02	105,670,008.14
Subsidies income		—	—
Non-operating income		6,900.00	—
Less: Non-operating expenses		96,468.57	11,132.62
IV. Total profit		34,519,772.10	98,098,576.58
Less: Income tax		—	—
V. Net profit		34,519,772.10	98,098,576.58

PROFIT APPROPRIATION STATEMENT

For the period ended 30 June 2004

Item	Form 7 (RMB)	
	Six months ended 30 June 2004	Six months ended 30 June 2003
I. Net profit	34,519,772.10	98,098,576.58
Add: Retained earnings at beginning of year	356,049,259.87	282,714,439.79
Add: Transfer from others	—	—
II. Distributable profit	390,569,031.97	380,813,016.37
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
III. Profit distributable to shareholders	390,569,031.97	380,813,016.37
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	—	—
IV. Retained earnings at end of the period	341,915,031.97	332,159,016.37

CASH FLOWS STATEMENT

For the period ended 30th June 2004

Item	Form 8	
	Six months ended	Six months ended
	30th June 2004	30th June 2003
		(RMB)
I. Cash flows from operating activities:		
Cash received from sales of goods or rendering of services	—	—
Refund of tax and levy	—	—
Other cash received relating to operating activities	1,096,581.71	2,652,555.38
Sub-total of cash inflows	1,096,581.71	2,652,555.38
Cash paid for goods or services	—	—
Cash paid to and on behalf of employees	3,340,245.88	3,987,199.00
Payments of all types of taxes	287,429.38	237,959.57
Other cash paid in relating to operating activities	5,160,839.91	2,855,203.12
Sub-total of cash outflows	8,788,515.17	7,080,361.69
Net cash flows from operating activities	(7,691,933.46)	(4,427,806.31)
II. Cash flows from investing activities:		
Cash received from disposal of investments	36,005,003.52	20,000,000.00
Including: cash received from disposal of subsidiaries	—	—
Cash received from returns on investments	109,813,431.02	99,155,060.26
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	690.00	—
Other cash received relating to investing activities	51,376,828.19	75,000,000.00
Sub-total of cash inflows	197,195,952.73	194,155,060.26
Cash paid to acquire fixed assets, intangible assets and other long-term assets	86,840.00	660,839.22
Cash paid to acquire investments	36,895,713.99	9,675,000.00
Including: cash paid to acquire subsidiaries	26,895,713.99	9,675,000.00
Other cash paid in relating to investing activities	107,270,697.60	116,173,275.92
Sub-total of cash outflows	144,253,251.59	126,509,115.14
Net cash flows from investing activities	52,942,701.14	67,645,945.12
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 distribution of dividends, profits or interest expenses	13,585,927.75	47,760,337.38
Other cash payments relating to financing activities	25,000,000.00	—
Sub-total of cash outflows	38,585,927.75	47,760,337.38
Net cash flows from financing activities	(38,585,927.75)	(47,760,337.38)
IV. Effect of foreign exchange rate changes on cash	—	—
V. Net increase in cash and cash equivalents	6,664,839.93	15,457,801.43

SUPPLEMENTAL INFORMATION

Item	Six months ended 30th June 2004	Six months ended 30th June 2003
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	34,519,772.10	98,098,576.58
Minority interest	—	—
Add: Provision for assets impairment	—	—
Depreciation of fixed assets	1,735,807.38	1,474,981.86
Amortization of intangible assets	—	—
Amortization of long-term prepaid expenses	593,123.58	413,065.68
Decrease in prepaid expenses (less: increase)	—	—
Increase in accrued expenses (less: decrease)	(1,929,200.00)	(1,941,813.00)
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	3,342.70	—
Losses on scrapping of fixed assets	40,361.08	—
Financial expenses	—	—
Losses on investments (less: gains)	(40,364,992.02)	(105,670,008.14)
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	—	—
Decrease in operating receivables (less: increase)	(1,930,994.08)	1,255,349.78
Increase in operating payables (less: decrease)	(394,646.87)	1,942,040.93
Others	35,492.67	—
Net cash flows from operating activities	(7,691,933.46)	(4,427,806.31)
2. Investing and financing activities that do not involve cash receipts or payments:		
conversion of debt into capital	—	—
Convertible bonds due within 1 year	—	—
Fixed assets acquired under finance lease	—	—
3. Net increase in cash and cash equivalents:		
Cash at the end of period	238,206,883.97	220,081,921.15
Less: Cash at the beginning of the period	231,542,044.04	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	6,664,839.93	15,457,801.43

MOVEMENT OF ASSETS IMPAIRMENT

For the period ended 30th June 2004

Form 9
(RMB)

Item	1st January 2004	Additions	Reversals recovery of assets value	Written off	Sub-total	30th June 2004
1. Total provision for bad debts	65,482,576.86	16,128,107.61	771,401.03	3,172,971.82	3,944,372.85	77,666,311.62
Including: Accounts receivable	55,547,492.63	14,714,388.25	141,479.04	3,172,971.82	3,314,450.86	66,947,430.02
Other receivables	9,935,084.23	1,413,719.36	629,921.99	—	629,921.99	10,718,881.60
2. Total provision for short-term investments	1,706,300.00	759,300.00	—	1,553,000.00	1,553,000.00	912,600.00
Including: Share investments	—	—	—	—	—	—
Debenture investments	1,677,300.00	571,300.00	—	1,524,000.00	1,524,000.00	724,600.00
Fund investments	29,000.00	188,000.00	—	29,000.00	29,000.00	188,000.00
3. Total provision for inventories	859,734.19	24,494,428.31	—	—	—	25,354,162.50
Including: Merchandise	560,981.41	24,494,428.31	—	—	—	25,055,409.72
Raw materials	298,752.78	—	—	—	—	298,752.78
4. Total provision for long-term investments	1,782,698.40	—	—	—	—	1,782,698.40
Including: Long-term equity investments	1,782,698.40	—	—	—	—	1,782,698.40
Long term debenture investments	—	—	—	—	—	—
5. Total provision for fixed assets	25,786,824.47	—	9,046.84	91,621.99	100,668.83	25,686,155.64
Including: Land & buildings	18,139,824.50	—	—	—	—	18,139,824.50
Machinery & equipment	7,239,412.42	—	—	91,621.99	91,621.99	7,147,790.43
6. Provision for intangible assets	966,151.46	—	—	—	—	966,151.46
Including: Patent	—	—	—	—	—	—
Trademark	—	—	—	—	—	—
7. Provision for construction in progress	80,000.00	—	—	—	—	80,000.00
8. Provision for loan by trust	—	—	—	—	—	—
9. Total	96,664,285.38	41,381,835.92	780,447.87	4,817,593.81	5,598,041.68	132,448,079.62

I. 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 registration No. 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 number 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, 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 eight Chinese patent medicine manufacturing entities, one chemical materials medicine manufacturing entity, two medical research & development entities and four pharmaceutical trading entities.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting System

The Group adopts the Accounting Standards for Business Enterprises and the Accounting system for Business Enterprises and the supplementary stipulations.

2. Accounting Period

The Group's accounting year starts on 1st January and ends on 31st December.

3. Bookkeeping Currency

The recording currency of the Group is the Renminbi ("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 RMB 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 RMB 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.

6. Cash Equivalents

Cash equivalents refer to short-term, highly liquid, investments that are readily convertible to cash of 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 recognized.

Bad debts are recognized 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 for bad debts based on the aging of receivable balances. In addition, the Group provides a special provision for high-risk receivables based on the financial status and solvency of the debtor.

Details of 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%

The above receivables include 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, commodities in stock, work in progress, raw materials, goods in transit, low-value consumables and packaging materials.

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

Consolidated subsidiaries include manufacturing enterprises and commercial enterprises. The respective basis of valuation is as follows:

(1) Manufacturing enterprises:

Raw materials and finished products are recorded at standard cost. Cost variances are allocated between cost of sold and inventory using reasonable basis, for those 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.

(2) Trading enterprises:

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

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

Inventories are checked at end of period. In case the costs are higher than the net realizable values owing to damage, whole or partial obsolescence or lower selling price than cost, the Group will provide provision for inventories for the difference.

9. Short-term investments

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

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

For those investments that represent less than 20% of the investee's issued capital, or at 20% or above but the Group has no significant influence on the investee, the cost method is adopted. For those investments that represent 20% or above of the investee's issued capital, or less than 20% but the Group has significant influence on the investee, the equity method is adopted. Investments which represent more than 50% of the investee's issued capital, or less than 50% but the Group has substantial control on the investee, the equity method of accounting is adopted and consolidated financial statements are prepared.

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

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

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.

12. Provision for long-term investments

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

13. Fixed assets and depreciation

Fixed assets include houses 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. Depreciation is provided to write off the cost over their useful lives at straight-line 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
Houses 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), 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 useful lives.

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

14. Construction work in progress

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

15. Intangible assets and amortization

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

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

16. Long-term deferred expenses

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

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

17. Accounting for borrowing cost

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

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

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

18. Recognition of revenue

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

III. TAXATION

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

1. Circulating tax and other additional taxes

1) Circulating tax

Taxable item	Tax	Rate
Revenue from sale of products	Value-added tax	17%
Revenue from transfer of materials	Value-added tax	17%
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 circulating 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 circulating 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 Company Limited, one of the Company’s subsidiary, applies the enterprise income tax rate of 24% and local income tax rate of 3%.

IV. SUBSIDIARIES AND JOINT VENTURES

Major subsidiaries in the consolidation scope of the consolidated financial statements

Name of the Company	Stock capital RMB1'000	Invested amount of the Group to its subsidiaries RMB1'000	% 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 Wanglaoji 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
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	18,410	3,890	51	Sales of Chinese and western pharmaceutical products
Guangxi Yingkang Pharmaceutical Co., Ltd.	37,340	21,720	51	Production of Chinese patent medicine

During the reporting period, two more subsidiaries were included into the consolidation of the Group. According to the Notice No. (1998) 66 “Answers to Questions concerning Accounting Problems regarding the Implementation of the Accounting Standards and Accounting Standards Applicable to Joint Stock Companies”, the acquisition/injection date of Guangxi Ying Kang Pharmaceutical Co., Ltd. and Guangzhou Guangyao Ying Bang Marketing Co., Ltd were determined according to the date when the assets acquired or the actual controlling right in management were transferred to the Company.

Investee and assets acquired or injected	As at 30th June 2004		As at 30th June 2004		From acquisition/injection date to 30th June 2004	
	Total assets	Include: Current assets	Total liabilities	Include: Current liabilities	Total profit	Net profit
Guangxi Ying Kang Pharmaceutical Co., Ltd.						
Guangzhou Guangyao Ying Bang Marketing Co., Ltd (formerly known as Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd.)						
						(RMB)
Guangxi Ying Kang Pharmaceutical Co., Ltd.	46,666,375.10	19,832,513.13	5,619,101.15	3,354,674.68	(61,158.08)	(61,158.08)
Guangzhou Guangyao Ying Bang Marketing Co., Ltd (formerly known as Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd.)	29,388,066.81	28,543,593.43	25,881,197.63	25,881,197.63	862,461.58	615,296.53

V. PROFIT APPROPRIATION

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

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

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

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED)

1. Cash

	30th June 2004	31st December 2003
Cash on hand	1,171,423.97	1,636,651.51
Cash in bank	857,143,891.69	813,935,035.65
Other cash	2,697,869.72	867,353.98
	<u>861,013,185.38</u>	<u>816,439,041.14</u>

(1) Breakdown of cash in bank

	30th June 2004	31st December 2003
Current deposit	829,895,591.69	795,273,557.32
Fixed deposit	27,248,300.00	18,661,478.33
	<u>857,143,891.69</u>	<u>813,935,035.65</u>

(2) Breakdown of other cash

	30th June 2004	31st December 2003
Out-port bank deposit	—	49,292.78
Credit card deposit	247,270.05	257,790.04
L/C guaranty deposit	2,343,637.69	453,121.55
Others	106,961.98	107,149.61
	<u>2,697,869.72</u>	<u>867,353.98</u>

2. Short-term investments

	30th June 2004	Impairment provision	Market price at 30th June 2004
Treasury bond	9,752,600.00	724,600.00	9,028,000.00
Fund	10,000,000.00	188,000.00	9,812,000.00
	<u>19,752,600.00</u>	<u>912,600.00</u>	

- (1) According to the closing price of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on 30 June 2004, the Group made provision for the amount of which the market price was lower than cost.
- (2) The closing balance as at 30th June 2004 is 61.94% less than that of the beginning balance, as at 31st December 2003 resulting from sales of some government bonds, stock and fund.

3. Notes receivable

	30th June 2004	31st December 2003
Bank acceptance bill	50,130,108.05	35,611,830.71
Commercial acceptance bill	7,849,895.73	16,668,924.48
	<u>57,980,003.78</u>	<u>52,280,755.19</u>

4. Dividend receivable

- (1) The balance as at 30th June 2004 represents the annual dividends receivable from Nanhai Nanfang Packaging Co., Ltd. with an amount of 4,324,345.00 for the year 2003.
- (2) The balance as at 30th June 2004 is 31.54% less than that of the balance, as at 31st December 2003, caused by the receipt of dividends distributed by Nanhai Nanfang Packaging Co., Ltd. during the reporting period.

5. Accounts receivable

- (1) Aging analysis of accounts receivable

Aging	30th June 2004			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	1,116,542,731.23	91.59%	12,478,829.80	1.12%
1-2 years	38,798,037.91	3.18%	4,113,586.08	10.60%
2-3 years	22,665,453.77	1.86%	14,211,689.80	62.70%
3-4 years	8,872,979.04	0.73%	4,602,869.27	51.88%
4-5 years	4,238,479.66	0.35%	3,607,491.28	85.11%
Over 5 years	27,932,963.79	2.29%	27,932,963.79	100.00%
	<u>1,219,050,645.40</u>	<u>100.00%</u>	<u>66,947,430.02</u>	<u>5.49%</u>
Aging	31st December 2003			
	Balance	Percentage	Bad debt provision	Provision 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>	<u>100.00%</u>	<u>55,547,492.63</u>	<u>5.95%</u>

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

- (2) From the balance as at 30th June 2004 aforementioned, RMB88,621,037.32 is owed by the top five customers with largest balance, representing 7.27% of the total balance.
- (3) The 30.53% increase of balance as at 30th June 2004 is caused by: the increase of main operating income, expansion of purchase bidding for hospital medicine, and extension of payment period of hospitals.
- (4) The current 168 reversals of accounts receivable amounts to 3,172,971.82, none of them are involved in related party transactions.

6. Other receivables

Aging	30th June 2004			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	125,990,556.45	65.74%	23,817.76	0.02%
1-2 years	22,543,950.31	11.76%	149,519.15	0.66%
2-3 years	2,758,178.49	1.44%	17,008.52	0.62%
3-4 years	10,030,614.23	5.23%	512,939.25	5.11%
4-5 years	9,576,776.40	5.00%	124,277.56	1.30%
Over 5 years	20,761,732.15	10.83%	9,891,319.36	47.64%
	<u>191,661,808.03</u>	<u>100.00%</u>	<u>10,718,881.60</u>	<u>5.59%</u>

Aging	31st December 2003			
	Balance	Percentage	Bad debt provision	Provision 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>	<u>100.00%</u>	<u>9,935,084.23</u>	<u>7.05%</u>

Breakdown of other receivables:

	Amount
Petty cash	3,223,019.67
Security money, deposit	3,157,388.71
Staff borrowings	44,278,235.19
Current account with external company	84,946,598.58
Current account between related parties	14,423,121.36
Other receivables	41,633,444.52
	<u>191,661,808.03</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 RMB7,526,892.01.

The increase of 36.01% in the balance as at 30th June than the balance as at 31st December is caused by the prepayment for equipment and project.

7. Advance to suppliers

From the balance of this account, no advance is prepaid to shareholders with 5% or more shareholding.

8. Subsidy receivable

- (1) The current subsidies receivable represents the export tax refund receivable with a sum of 5,359,580.42.
- (2) The decrease of 48.10% in the balance as at 30th June is caused by the receipt of export tax refund.

9. Inventories

Item	30th June 2004	Provision	31st December 2003	Provision
Goods in transit	1,625,078.38	—	3,697,330.09	—
Raw materials	82,803,897.12	298,752.78	80,703,963.41	298,752.78
Work in progress	49,773,271.96	—	62,052,049.41	—
Finished goods	65,041,895.97	111,066.72	80,545,553.20	111,066.72
Low-value Consumables	1,802,319.11	—	1,916,496.77	—
Packing Materials	29,257,556.51	—	32,111,255.96	—
Consigned goods for process	551,005.38	—	600,394.57	—
Goods in stock	639,333,024.56	24,944,343.00	802,786,887.82	449,914.69
Others	1,544,686.13	—	3,885,332.06	—
	<u>871,732,735.12</u>	<u>25,354,162.50</u>	<u>1,068,299,263.29</u>	<u>859,734.19</u>

- (1) At the end of period, the Group provided provision for inventory at the shortfall of net realizable value over the cost with an amount of 25,354,162.50 for damaged, long idled inventories and those whose price was lower than cost.
- (2) As to the provision for inventory, the increase of 2,849.07% in the balance as at 30th June than the balance as at 31st December is mainly caused by the accrual with an amount of 24.49 million by the subsidiary—Guangzhou Chinese Medicine Corporation according to the conservatism principle.

10. Prepaid expense

Item	31st December 2003	Addition	Amortization	30th June 2004
Insurance premium prepaid	1,816,749.55	491,979.69	1,365,769.26	942,959.98
Road toll	126,433.28	738,768.80	772,673.06	92,529.02
Advertising	6,239,158.00	7,116,134.00	9,829,797.01	3,525,494.99
Deductible input VAT	82,396,108.92	160,883,169.93	167,047,680.07	76,231,598.78
Others	721,905.31	5,332,209.35	2,044,585.63	4,009,529.03
	<u>91,300,355.06</u>	<u>174,562,261.77</u>	<u>181,060,505.03</u>	<u>84,802,111.80</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 Information Engineering Co., Ltd.	N/A	44.00%	440,000.00
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	516,930.33
Huadong Medicine Co., Ltd.	N/A	—	264,000.00
Lianjie Computer Technology Company	N/A	50.00%	250,000.00
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., Ltd.	N/A	20.00%	20,000,000.00
Jihua Medical Appliance Company Limited	N/A	24.00%	4,200,000.00
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	N/A	38.00%	765,000.00
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%	1,000,000.00
Shenzhen Qixing Lanzao Biology 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

(2) Movement of long-term equity investment in the current period is as follows

Investee	30th June 2004	Current fluctuation under equity method	Accumulated fluctuation under equity method	Provision	Note
Indonesia Sanyou Industrial Company Limited	1,260,144.45	—	(261,418.37)	1,260,144.45	[1]
Guangzhou Zhongfu Pharmaceutical Company Limited	1,651,386.94	(56,508.97)	1,251,386.94	—	
Shanghai Jiuhu Tang Chinese Medicine Company Limited	615,000.00	—	0.00	—	
Guangzhou Chenliji Xingma Health Care Products Co., Ltd.	208,571.44	(137,637.58)	(755,378.56)	—	
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Co., Ltd.	316,321.86	(30,740.69)	(123,678.14)	—	
Ming Tai Industrial (Thailand) Company Limited	320,843.90	9,094.58	(196,086.43)	—	
Huadong Medicine Co., Ltd.	264,000.00	—	—	—	
Lianjie Computer Technology Company	243,721.51	(6,278.49)	(6,278.49)	—	
Guangzhou Medicine Company 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., Ltd.	14,576,600.30	(752,023.10)	(5,423,399.70)	—	
Jihua Medical Appliance Company Limited	2,989,979.68	(182,073.11)	(1,210,020.32)	—	
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	765,000.00	—	—	—	
Nanhai Nanfang Packaging Co., Ltd.	30,000,000.00	—	—	—	
Guoyao Group Industrial Co., Ltd.	8,000,000.00	—	—	—	
Guangzhou Huayin Bio-technology Co., Ltd.	1,000,000.00	—	—	—	
Shenzhen Qixing Lanzao Biology Co., Ltd.	583,959.49	(286,963.76)	(3,016,040.51)	522,553.95	
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	—	—	—	
Communication Bank Guangdong Branch	362,750.00	—	—	—	
Everbright Bank	10,725,000.00	—	—	—	
Guangzhou Pangaoshou Natural Health Product Co., Ltd.	1,213,902.10	—	—	—	[3]
Guangzhou Huanye Pharmaceutical Co., Ltd.	843,490.01	—	—	—	[4]
Guangzhou Bio-technology Co., Ltd.	258,715.36	—	—	—	[5]
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	2,333,544.88	—	—	—	[6]
Guangxi Yingkang Pharmaceutical Co., Ltd.	732,907.17	—	—	—	[7]
	<u>79,966,764.52</u>	<u>(1,443,131.12)</u>	<u>(9,682,514.53)</u>	<u>1,782,698.40</u>	

- Note 1: As the Group can not obtain the financial materials of Indonesia Sanyou Industrial Company Limited from the year 1997 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 Lanza Biology Co., Ltd. has suffered significant losses and it is hard to continue its operation, therefore it began liquidation at the year of 2003. According to the recoverability estimated by the liquidation committee, the Group accrued provision for impairment at the amount of 522,553.95 at the end of year 2003.
- Note 3: The consolidation variance of Guangzhou Pangaoshou Natural Health Product Co., Ltd. amounts to 1,213,902.10, representing the un-amortized amount of the payments for purchasing 32% and 15% of the said company's share capital paid by the Company's subsidiary, Guangzhou Pangaoshou Pharmaceutical Co., Ltd in October 1999 and November 2002 respectively, excess to the share of owners' equity acquired. The initial amount of the equity investment difference is 1,990,885.94, the current amortization is 80,926.84 and the accumulated amortization is 776,983.84.
- Note 4: The consolidation variance of Guangzhou Huanye Pharmaceutical Co., Ltd. amounts to 843,490.01, representing the difference between the total payments for purchase of its stock in December 2002 by the Company, and the share of owners' equity acquired. The difference is amortized evenly beginning from January 2003. The initial amount of the equity investment difference is 992,341.19, the current amortization is 49,617.06 and the accumulated amortization is 148,851.18.
- Note 5: The consolidation variance of Guangzhou Bio-technology Co., Ltd. amounts to 258,715.36, representing the difference between the the increment of the said company's capital paid by the Company in June 2002 and November 2003 respectively, and the share of owners' equity acquired. The original amount of equity investment difference is 291,355.39, the current amortization is 14,567.77 and the accumulated amortization is 32,640.03.
- Note 6: The consolidation variance of Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd. amounts to 2,333,544.88, representing the difference between the Company's payments for purchase the stock of the said company in March 2004, and the share of owners' equity acquired. The original amount of equity investment difference is 2,414,011.94, the current amortization is 80,467.06 and the accumulated amortization is 80,467.06.
- Note 7: The consolidation variance of Guangxi Yingkang Pharmaceutical Co., Ltd. amounts to 732,907.17, representing the difference between the Company's payments for purchase the stock of the said company in April 2004, and the share of owners' equity acquired. The original amount of equity investment difference is 751,699.66, the current amortization is 18,792.49 and the accumulated amortization is 18,792.49.

12. Fixed assets and accumulated depreciation

Cost	31st December 2003	Addition	Disposal	30th June 2004
Land & building	841,687,281.55	65,345,901.35	951,710.35	906,081,472.55
Machinery	474,145,759.56	91,081,706.32	3,067,201.57	562,160,264.31
Transportation Vehicle	91,566,963.10	4,434,410.23	2,600,129.25	93,401,244.08
Electric equipment	25,646,585.28	10,478,545.84	835,865.45	35,289,265.67
Office equipment	54,586,961.69	8,494,116.23	365,019.84	62,716,058.08
Renovation of fixed assets	17,809,198.38	1,021,510.94	2,264.96	18,828,444.36
	<u>1,505,442,749.56</u>	<u>180,856,190.91</u>	<u>7,822,191.42</u>	<u>1,678,476,749.05</u>
Accumulated depreciation	31st December 2003	Addition	Disposal	30th June 2004
Land & building	163,377,827.44	17,701,924.51	181,960.73	180,897,791.22
Machinery	239,579,345.55	16,946,915.75	1,583,594.24	254,942,667.06
Transportation Vehicle	51,875,612.54	4,372,148.40	2,143,962.38	54,103,798.56
Electric equipment	14,098,809.36	5,752,960.87	474,084.17	19,377,686.06
Office equipment	26,351,235.94	4,606,533.03	331,836.22	30,625,932.75
Renovation of fixed assets	3,303,779.94	1,421,477.92	2,264.96	4,722,992.90
	<u>498,586,610.77</u>	<u>50,801,960.48</u>	<u>4,717,702.70</u>	<u>544,670,868.55</u>

Provision for impairment:	31st December 2003	Addition	Written off	30th June 2004
Land & building	18,139,824.50	—	—	18,139,824.50
Machinery	7,239,412.42	—	91,621.99	7,147,790.43
Transportation Vehicle	278,067.41	—	9,046.84	269,020.57
Electric equipment	—	—	—	—
Office equipment	129,520.14	—	—	129,520.14
Renovation of fixed assets	—	—	—	—
	<u>25,786,824.47</u>	<u>—</u>	<u>100,668.83</u>	<u>25,686,155.64</u>

- (1) During the reporting period, construction in progress transferred to fixed assets amounted to RMB156,368,129.49.
- (2) As at 30th June 2004, the Group has mortgaged its fixed assets with net book value of RMB105,440 thousand (Last year: RMB118,400 thousand) for bank loans.
- (3) At the end of the period, the Group provided provision of RMB25,686,155.64 for the difference whose recoverable amount is lower than the book value owing to their technology obsolescence, damage or long idleness.

13. Construction in progress

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

Project	Budget	Financing source	% of fund used to budget
Relocation of Guangzhou Xingqun Pharmaceutical Company	243,688,046.72	Working capital and loan from financial organs	78%
Xingqun Manufacture Workshop project at phase 3	16,835,778.76	Working capital	100%
Xingqun Repair Workshop project at phase 2	465,000.00	Working capital	100%
Zhong Yi dust removing project	—	Working capital	—
Zhong Yi relocation of Yunpu workshop	197,030,000.00	Working capital, loan from financial organs and government appropriation	52%
Relocation and expansion of Chenliji factory	126,000,000.00	Working Capital	101%
Chinese medicine absorbing base of Chenliji	—	Working Capital	—
Chenliji product technical alteration	29,100,000.00	Working capital and stock capital	82%
Chenliji product show room	4,000,000.00	Working capital	115%
Chenliji noise renovation project	38,000.00	Working capital	95%
Chenliji cable renovation project	200,000.00	Working capital	60%
Chenliji Chinese medicine museum	4,900,000.00	Working capital	1%
Hanfang Conghua base construction	118,840,000.00	Stock capital and government appropriation	43%
Hanfang equipment installation project	3,786,349.50	Stock capital and government appropriation	165%
Jingxiutang prepayment for equipment	—	Working capital and loan from financial organs	—
Jingxiutang Anbike equipment installed	—	Working capital	—
Jingxiutang filling & packaging production line for suppository	12,821,045.48	Working capital and stock capital	100%
Jingxiutang Zhuifengtouguwan filling & packaging production line	11,339,612.77	Working capital and stock capital	100%
Jingxiutang GMP project	30,300,000.00	Working capital and loan from financial organs	28%
Jingxiutang Wanhuyou GMP project	4,196,978.09	Working capital	97%
Jingxiutang sewage treatment pool	—	Working capital	—
Pangaoshou computer equipment	—	Working capital	—
Pangaoshou GMP project	104,910,000.00	Loan from financial organs and government appropriation	82%
Wanglaoji inter-factory maintenance	1,000,000.00	Working capital	109%
Wanglaoji GMP project for preparation workshop	23,000,000.00	Working capital and loan from financial organs	113%
Alteration of Wanglaoji sewage treatment station	400,000.00	Working capital	140%
Alteration of Wanglaoji boiler project	600,000.00	Working capital	67%
Alteration of Wanglaoji distilling workshop	1,700,000.00	Working capital	136%
Wanglaoji pill workshop	11,000,000.00	Working capital and stock capital	87%
Wanglaoji technology renovation for Jianpilichangpian & Anchuangpian	17,800,000.00	Working capital and loan	56%
Packing machine made by Wanglaoji for "ren dan"	250,000.00	Working capital	4%

Project	Budget	Financing source	% of fund used to budget
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	52,680,000.00	Working capital, stock capital and loan from financial organs	101%
Jianmin Yirentiandi	6,000,000.00	Working capital	20%
Caizhilin store in Jiahong Garden	2,179,473.00	Working capital and stock capital	100%
Caizhilin store in Wanfeng Garden	2,385,100.00	Working capital and stock capital	100%
Guangzhou Chinese Medicine Factory GMP project	5,000,000.00	Working capital	60%
Guangzhou Medicine Imp. & Exp. Co. ERP project	600,000.00	Stock capital	16%
Baidi thunder-proof project	37,499.00	Working capital	70%
Baidi GMP 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	108%
Huanye office building in development zone	323,120.00	Working capital	149%
Huanye solid preparation workshop project in development zone	4,738,900.00	Working capital	54%
Huanye operating desks for testing in development zone	115,500.00	Working capital	100%
Huanye raw materials workshop project in development zone	4,198,100.00	Working capital	112%
Yingbang warehouse	—	Working capital	—
Yingkang building for GMP preparation and office	10,150,000.00	Working capital	97%
Yingkang GMP equipment purchase & installation and technological renovation of workshops	7,010,000.00	Working capital	120%
Qixing Xinchuangju office building	16,872,455.01	Working capital	106%
Tianbao purge renovation project for confection workshop	250,000.00	Working capital	100%
Tianbao cable renovation project for preparation workshop	400,000.00	Working capital	100%

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

Project	31st December 2003	Addition	Transfer to fixed assets	Other reduction	30th June 2004	Provision
Relocation of Guangzhou Xingqun Pharmaceutical Company	1,727,686.68	1,306,122.87	1,160,041.53	4,359.60	1,869,408.42	—
Xingqun Manufacture Workshop project at phase 3	16,364,402.15	554,314.14	—	—	16,918,716.29	—
Xingqun Repair Workshop project at phase 2	450,446.32	—	—	—	450,446.32	—
Zhong Yi dust removing project	80,000.00	—	—	—	80,000.00	80,000.00
Zhong Yi relocation of Yunpu workshop	74,743,400.45	20,510,795.98	—	—	95,254,196.43	—
Relocation and expansion of Chenlijij factory	1,336,275.76	—	251,065.42	1,085,210.34	—	—
Chinese medicine absorbing base of Chenlijij	7,692.00	—	—	—	7,692.00	—
Chenlijij product technical alteration	13,306,720.51	488,257.40	—	—	13,794,977.91	—
Chenlijij product show room	1,923,248.86	2,671,493.19	—	—	4,594,742.05	—
Chenlijij noise renovation project	36,100.00	—	—	—	36,100.00	—
Chenlijij cable renovation project	—	120,000.00	—	—	120,000.00	—
Chenlijij Chinese medicine museum	—	45,029.00	—	—	45,029.00	—
Hanfang Conghua base construction	40,110,014.39	8,994,039.89	—	—	49,104,054.28	—
Hanfang equipment installation project	1,253,927.00	2,467,649.60	935,483.00	—	2,786,093.60	—
Jingxiutang prepayment for equipment	2,119,798.60	1,657,968.78	—	—	3,777,767.38	—
Jingxiutang Anbike equipment installed	50,000.00	—	—	—	50,000.00	—
Jingxiutang filling & packaging production line for suppository	3,952,666.48	63,500.00	—	—	4,016,166.48	—
Jingxiutang Zhuihengtonguwan filling & packaging production line	6,832,257.64	398,833.45	—	—	7,231,091.09	—
Jingxiutang GMP project	1,727,864.16	—	—	—	1,727,864.16	—
Jingxiutang Wanhuyou GMP project	2,955,553.43	55,000.00	—	—	3,010,553.43	—
Jingxiutang sewage treatment pool	558,281.00	—	—	—	558,281.00	—
Pangaoshou computer equipment	—	71,410.00	—	—	71,410.00	—
Pangaoshou GMP project	65,603,308.09	18,999,925.38	84,524,663.47	78,570.00	—	—
Wanglaoji inter-factory maintenance	394,000.00	100,000.00	—	—	494,000.00	—
Wanglaoji GMP project for preparation workshop	—	3,170,756.89	76,600.00	—	3,094,156.89	—
Alteration of Wanglaoji sewage treatment station	597,102.39	316,200.00	—	—	913,302.39	—
Alteration of Wanglaoji boiler project	101,851.96	331,734.35	—	—	433,586.31	—
Alteration of Wanglaoji distilling workshop	—	450,782.69	—	—	450,782.69	—
Wanglaoji pill workshop	100,000.00	—	—	—	100,000.00	—
Wanglaoji technology renovation for Jianpilichangpian & Anchuangpian	379,435.00	323,000.00	323,000.00	—	379,435.00	—
Packing machine made by Wanglaoji for "ren dan"	—	9,468.26	—	—	9,468.26	—
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	42,809,559.61	10,603,737.90	48,273,980.03	5,139,317.48	—	—
Jianmin Yirentiandi	210,940.00	954,282.88	—	—	1,165,222.88	—
Caizhilin store in Jiahong Garden	2,179,473.00	—	—	—	2,179,473.00	—
Caizhilin store in Wanfeng Garden	84,500.00	—	—	—	84,500.00	—
Guangzhou Chinese Medicine Factory GMP project	2,955,874.12	64,261.20	2,859,531.80	152,263.52	8,340.00	—
Guangzhou Medicine Imp. & Exp. Co. ERP project	97,909.45	—	—	97,909.45	—	—
Baidi thunder-proof project	26,249.13	—	26,249.13	—	—	—
Baidi GMP project	62,862.00	—	—	—	62,862.00	—
Baidi equipment installation	1,283,400.00	—	—	—	1,283,400.00	—
Baidi equipment installation	61,681.00	205,791.00	84,083.00	—	183,389.00	—
Huanye office building in development zone	246,936.00	—	—	—	246,936.00	—
Huanye solid preparation workshop project in development zone	2,340,041.06	75,000.00	—	—	2,415,041.06	—
Huanye operating desks for testing in development zone	64,675.58	61,653.93	—	—	126,329.51	—
Huanye raw materials workshop project in development zone	—	500,000.00	—	—	500,000.00	—
Yingbang warehouse	—	485,411.24	—	—	485,411.24	—
Yingkang building for GMP preparation and office	—	9,845,777.81	—	—	9,845,777.81	—
Yingkang GMP equipment purchase & installation and technological renovation of workshops	—	8,377,911.87	—	—	8,377,911.87	—
Qixing Xinchuangju office building	16,872,455.01	980,977.10	17,853,432.11	—	—	—
Tianbao purge renovation project for confection workshop	—	250,000.00	—	—	250,000.00	—
Tianbao cable renovation project for preparation workshop	—	400,000.00	—	—	400,000.00	—
	<u>306,008,588.83</u>	<u>95,911,086.80</u>	<u>156,368,129.49</u>	<u>6,459,720.94</u>	<u>239,091,825.20</u>	<u>80,000.00</u>

(3) At the end of the period 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.

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

Project	31st December 2003	Addition	Transferred to fixed asset	Other reduction	30th June 2004
Guangzhou Chinese Medicine Factory GMP project	62,540.00	—	—	—	62,540.00
Yingkang building for GMP preparation and office	—	36,049.00	—	—	36,049.00
	<u>62,540.00</u>	<u>36,049.00</u>	<u>—</u>	<u>—</u>	<u>98,589.00</u>

14. Intangible assets

(1) Details of intangible assets are as follows:

Project	Way of acquisition	Cost	Remaining amortization period (month)	Provision
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	498	—
Land use right of Renmin Road factory	Purchase	2,686,602.00	498	—
Land use right of No.34 of Guanlv Road	Purchase	40,873.95	462	—
Land use right of No. 32 of Duobao Road				
Changhua New Street and Shiguili No. 3	Purchase	1,465,822.00	193	—
Land use right of No. 77 of Shanmulan	Purchase	199,200.00	551	—
Land use right of Conggui Road	Purchase	245,477.00	522	—
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,618,067.38	468	—
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	527	—
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	518	—
Land use right of No. 1688 of Southern Guangzhou Avenue at the gate	Purchase	325,818.02	470	—
Land use right of Songgang Factory	Purchase	20,417,970.00	474	—
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	463	—
Land use right of Panyu Dongsha Development District	Purchase	15,947,019.00	498	—
Land use right of Guangzhou Baiyun District Jiangcun factory	Purchase	3,463,092.00	516	—
Land use right of Shi Er Pu New Street	Purchase	3,509,041.00	397	—
Land use right of Beijing Road No. 328	Purchase	1,306,988.00	96	—
Land use right of He Ping West Road No. 136-138	Purchase	1,535,744.00	397	—
Land use right of Huang Jin Wei	Purchase	1,051,697.00	397	—
Land use right of No.103 of Da Tong Road	Land appraisal appreciation	17,928,863.00	352	—
Land use right of A area of Xin Zhou Warehouse	Purchase	1,096,704.00	496	—
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	497	480,700.24
Land use right of Sai Ba Kou Warehouse	Purchase	402,518.00	496	—
Land use right of Chang An Warehouse	Purchase	114,675.00	438	—
Land use right of Jiu Fo Warehouse	Purchase	65,136.00	381	—
Land use right of No.85 of Shang Jiu Road	Purchase	3,195,793.33	426	—
Land use right of No.26 of Hong Chang Street	Purchase	309,046.00	496	—
Land use right of No.20 of Bao Hua Bei Road	Purchase	163,591.00	381	—
Land use right of No.44 of Bing Jiang Xi Road	Purchase	577,366.00	438	—
Land use right of No.54 of Xi Hua Road	Purchase	21,541.00	528	—
Land use right of No.69 of Hong De Road	Purchase	58,567.64	522	—
Land use right of No.265 of Da Xin Road	Purchase	330,153.00	510	—
Land use right of No.22 of Guang Zhi Road	Purchase	109,032.00	654	—
Land use right of No.1 of Sha Yuan 3rd Street	Purchase	37,120.00	654	—
Land use right of No.29 of Tong Fu Zhong Lu Long Dao Tong Jin	Purchase	27,045.00	654	—
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	515	—
Land use right of No.33 of Xin Gang Zhong Road	Investment accepted	1,755,288.00	534	—
Chi Gang North Street				
Land use right of No. 5 of Panyu Dongsheng Factory	Purchase	3,078,097.91	474	—
Malotilate emulsion technology	Purchase	1,500,000.00	111	—
Famciclovir soft capsule technology	Purchase	480,000.00	108	—
New medicine technology transfer fee	Purchase	1,000,000.00	108	—
Hubei Ankang sales network and trademark use right	Investment accepted	1,200,000.00	117	—
Software of logistics project in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	Purchase	5,005,079.55	59	—
Trademarks of Yingkang series	Investment accepted	3,807,722.31	120	—
Langcheng financial software	Purchase	1,649,746.91	45	485,451.22
		<u>139,926,961.90</u>		<u>966,151.46</u>

(2) Movement of Intangible Assets in the current period are as below:

Project	31st December 2003	Addition	Current amortization	Accumulated amortization	30th June 2004	Provision
Land use right of Nanzhou Road factory	3,786,878.29	—	44,188.83	558,356.54	3,742,689.46	
Land use right of Renmin Road factory	2,310,756.19	—	27,414.31	403,260.12	2,283,341.88	
Land use right of No.34 of Guanlv Road	34,641.01	—	445.09	6,678.03	34,195.92	
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3	1,201,796.00	—	34,332.00	298,358.00	1,167,464.00	
Land use right of No. 77 of Shanmulan	171,005.98	—	1,992.00	30,186.02	169,013.98	
Land use right of Conggui Road	210,743.29	—	2,454.76	37,188.47	208,288.53	
Land use right of No.19-29 of Ningxiheng Street	1,374,074.73	—	17,547.26	261,539.91	1,356,527.47	—
Land use right of No. 194 of Beijing Road	2,103,897.15	—	23,625.81	282,309.74	2,080,271.34	—
Land use right of No. 1688 of Southern Guangzhou Avenue	23,585,391.88	—	270,061.74	3,690,843.78	23,315,330.14	—
Land use right of No. 1688 of Southern Guangzhou Avenue at the gate	262,261.47	—	3,091.75	66,648.30	259,169.72	—
Land use right of Songgang Factory	1,775,391.73	—	22,192.38	18,664,770.65	1,753,199.35	—
Land use right of Nanhai Huangqi	3,229,630.94	—	41,317.26	901,686.32	3,188,313.68	—
Land use right of Panyu Dongsha Development Distric	13,732,928.00	—	159,470.19	2,373,561.19	13,573,457.81	—
Land use right of Guangzhou Baiyun District Jiangcun factory	3,083,094.45	—	35,437.86	415,435.41	3,047,656.59	—
Land use right of Shi Er Pu New Street	3,185,007.75	—	47,419.58	371,452.83	3,137,588.17	—
Land use right of Beijing Road No. 328	1,100,048.36	—	16,337.34	223,276.98	1,083,711.02	—
Land use right of He Ping West Road No. 136-138	1,393,929.92	—	20,753.28	162,567.36	1,373,176.64	—
Land use right of Huang Jin Wei	954,580.71	—	14,212.14	111,328.43	940,368.57	—
Land use right of No.103 of Da Tong Road	14,792,137.76	—	247,636.12	3,384,361.36	14,544,501.64	—
Land use right of A area of Xin Zhou Warehouse	916,860.56	—	10,967.04	190,810.48	905,893.52	—
Land use right of B area of Xin Zhou Warehouse	2,265,011.14	—	21,241.80	432,371.66	2,243,769.34	480,700.24
Land use right of Sai Ba Kou Warehouse	336,511.16	—	4,025.16	70,032.00	332,486.00	—
Land use right of Chang An Warehouse	94,341.05	—	1,274.16	21,608.11	93,066.89	—
Land use right of Jiu Fo Warehouse	52,500.57	—	814.20	13,449.63	51,686.37	—
Land use right of No.85 of Shang Jiu Road	2,576,542.99	—	79,038.46	698,288.80	2,497,504.53	—
Land use right of No.26 of Hong Chang Street	258,366.73	—	3,090.48	53,769.75	255,276.25	—
Land use right of No.20 of Bao Hua Bei Road	131,857.06	—	2,044.86	33,778.80	129,812.20	—
Land use right of No.44 of Bing Jiang Xi Road	474,988.64	—	6,415.14	108,792.50	468,573.50	—
Land use right of No.54 of Xi Hua Road	19,171.60	—	215.40	2,584.80	18,956.20	—
Land use right of No.69 of Hong De Road	56,075.41	—	623.04	3,115.27	55,452.37	—
Land use right of No.265 of Da Xin Road	283,931.58	—	4,126.92	50,348.34	279,804.66	—
Land use right of No.22 of Guang Zhi Road	93,813.05	—	1,363.00	16,581.95	92,450.05	—
Land use right of No.1 of Sha Yuan 3rd Street	31,938.92	—	463.95	5,645.03	31,474.97	—
Land use right of No.29 of Tong Fu Zhong Lu Long Dao Tong Jin	23,269.57	—	338.03	4,113.46	22,931.54	—
Land use right of No.12 of Fangcun Sai Ba Road	1,533,531.43	—	17,645.22	248,636.69	1,515,886.21	—
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	1,579,759.20	—	17,552.88	193,081.68	1,562,206.32	—
Land use right of No. 5 of Panyu Dongsheng Factory	2,267,419.10	—	30,390.60	841,069.41	2,237,028.50	—
Malotilate emulsion technology	1,462,500.00	—	75,000.00	112,500.00	1,387,500.00	—
Famciclovir soft capsule technology	456,000.00	—	24,000.00	48,000.00	432,000.00	—
New medicine technology transfer fee	949,996.00	—	50,004.00	100,008.00	899,992.00	—
Hubei Ankang sales network and trademark use right	—	1,200,000.00	30,000.00	30,000.00	1,170,000.00	—
Software of logistics project in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	—	5,005,079.55	83,417.99	83,417.99	4,921,661.56	—
Trademarks of Yingkang series	—	3,807,722.31	—	—	3,807,722.31	—
Langcheng financial software	528,775.30	—	34,740.12	1,155,711.73	494,035.18	485,451.22
	<u>94,681,356.67</u>	<u>10,012,801.86</u>	<u>1,528,722.15</u>	<u>36,761,525.52</u>	<u>103,165,436.38</u>	<u>966,151.46</u>

The Group provided provision for impairment of intangible assets at the shortfall of the collectable cash over the carrying amount.

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	37,650,231.13	12 to 60 months
Expenditure on leasehold improvement	5 years	1,085,210.34	57 months
Installation of telephone	5 years	2,756,400.00	11 months
Maintenance expenditure on fixed assets	5 years	7,162,070.45	Fully amortized
ERP system	5 years	3,902,597.38	6 months - 60 months
Computer system	5 years	6,265,406.31	6 months - 60 months
GMP project improvement	5 years	4,426,817.44	6 months
Medical fund for retired staff	5 years	2,414,500.00	18 to 42 months
Transitional medical fund for retired staff	10 years	3,049,676.46	100 months
Labor insurance premium	5 years	417,623.11	6 - 30 months
Others	2-5 years	6,108,030.96	6 months - 60 months
		<u>75,238,563.58</u>	

(2) Movement of long-term prepaid expense in the current period are as below:

Item	31st December 2003	Current addition	Current amortization	Accumulated amortization	30th June 2004
Renovation	19,172,580.45	2,107,314.71	2,703,590.17	19,073,926.14	18,576,304.99
Expenditure on leasehold improvement	—	1,085,210.34	54,260.51	54,260.51	1,030,949.83
Installation of telephone	105,959.26	—	23,449.98	2,673,890.72	82,509.28
Maintenance expenditure on fixed assets	927,290.06	—	927,290.06	7,162,070.45	—
ERP system	2,196,895.62	—	661,655.21	2,367,356.97	1,535,240.41
Computer system	552,252.56	467,330.00	276,998.63	5,522,822.38	742,583.93
GMP project improvement	129,510.60	—	111,009.00	4,408,315.84	18,501.60
Medical fund for retired staff	882,766.93	—	214,495.98	1,746,229.05	668,270.95
Transitional medical fund for retired staff	2,691,012.94	—	152,554.50	511,218.02	2,538,458.44
Labor insurance premium	167,049.37	—	41,762.28	292,336.02	125,287.09
Others	1,587,742.87	267,461.00	700,155.03	4,952,982.12	1,155,048.84
	<u>28,413,060.66</u>	<u>3,927,316.05</u>	<u>5,867,221.35</u>	<u>48,765,408.22</u>	<u>26,473,155.36</u>

16. Short-term loans

	30th June 2004	31st December 2003
Loan by credit	60,000,000.00	50,000,000.00
Loan by mortgage and pledge	75,000,000.00	148,300,000.00
Loan by guaranty	554,120,000.00	465,930,000.00
	<u>689,120,000.00</u>	<u>664,230,000.00</u>

17. Notes payable

	30th June 2004	31st December 2003
Bank acceptance bill	73,864,182.00	212,533,538.69
Commercial acceptance bill	28,042,962.04	—
	<u>101,907,144.04</u>	<u>212,533,538.69</u>

The balance as at 30th June 2004 of notes payable was decreased by 52.05% than the balance as at 31st December 2003 because the mature bills have been paid.

18. Accounts payable

Of the balance as at 30th June 2004, no account is due to shareholders with 5% or more shareholding.

19. Advances from customers

Within the balance as at 30th June 2004 of this account, no advance is from shareholders with 5% or more shareholding.

20. Dividend payable

Name of shareholder	30th June 2004	Note
State shares	30,780,000.00	Paid in July 2004
Domestic public shares	4,680,402.71	Paid in July 2004
	<u>35,460,402.71</u>	

The balance as at 30th June 2004 was increased by 317133.03% than the balance as at 31st December 2003, representing the unpaid declared dividends of the year 2003 to the domestic shares during the reporting period, the said dividends had been paid in July 2004.

21. Taxes payable

	30th June 2004	31st December 2003
Business tax	309,602.45	912,882.34
Value added tax	6,656,821.07	(27,869,188.13)
City construction tax	1,129,488.63	948,807.24
Enterprise income tax	19,756,662.81	44,824,745.71
Property tax	323,898.16	273,815.82
Withholding tax	196,987.54	2,318,100.42
Others	151,382.13	196,227.07
	<u>28,524,842.79</u>	<u>21,605,390.47</u>

22. Other levies payable

	Note	30th June 2004	31st December 2003
Education surcharge	(1)	491,735.89	410,733.97
Urban dyke protection expense	(2)	2,424,790.37	2,216,500.01
Others		65,479.31	24,361.13
		<u>2,982,005.57</u>	<u>2,651,595.11</u>

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

(2) Urban dyke protection expense is paid at 0.05% of taxable revenue (VAT, Business tax, consumption tax and resources tax) for commodities circulating wholesale enterprise, 0.09% for foreign-invested enterprises and 0.13% for the others.

23. Other payables

	30th June 2004	31st December 2003
Deposits	9,351,249.94	8,975,189.47
Technology development fee	872,501.39	1,236,707.46
Rental	843,913.92	518,746.38
Labor union fund	1,076,042.12	1,216,230.20
Staff education fund	10,333,591.67	10,443,909.59
Current accounts to external companies	42,971,291.44	35,358,597.55
Advance from staff	3,158,004.85	2,894,381.70
Labor insurance	888,249.63	413,811.12
Monetary subsidies of staff housing	14,461,198.61	14,089,890.99
Payables to Guangzhou Pharmaceutical Holdings Limited	14,307,548.39	13,813,546.79
Staff bonus and welfare fund	1,912,759.57	1,964,745.69
Centralization fund	11,594,693.07	11,937,942.10
Operator incentive fund	4,210,258.47	3,800,000.00
Payables to Communication Bank Guangzhou Branch (Collected on behalf)	112,296,879.82	79,954,738.54
Estimated payment for fixed assets	9,119,090.25	9,883,917.00
Others	6,265,948.05	3,116,741.70
	<u>243,663,221.19</u>	<u>199,619,096.28</u>

Among the other payable accounts, the amount payable to the shareholder who holds 5% or above of the total share was which payable to the Holding of RMB14,307,548.39.

24. Accrued expenses

	30th June 2004	31st December 2003
Rental	777,162.17	408,735.53
Interest on loan	818,936.50	675,992.25
Insurance premium	200,000.00	—
Water and electricity expense	780,000.00	—
Advertising expense	2,200,000.00	911,582.91
Subsidies of staff housing	1,200,000.00	—
Audit fee	70,800.00	2,000,000.00
Property tax	680,000.00	—
Urban dyke protection expense	155,792.20	139,981.86
Others	513,776.59	320,000.00
	<u>7,396,467.46</u>	<u>4,456,292.55</u>

The increase of 65.98% in the balance as at 30th June 2004 than the balance as at 31st December was caused by the expense of advertisement completed but not paid.

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

The balance as at 30th June 2004 of long-term liabilities due within one year with a sum of 20,000,000 is RMB loan by credit.

26. Long-term loan

Lender	Period	Interest rate per annum	30th June 2004	Condition
ICBC Guangzhou No. 1 Branch	2003.07.22—2005.07.21	4.94%	20,000,000.00	Credit
ICBC Guangzhou No. 1 Branch	2004.01.19-2006.01.18	4.94%	20,000,000.00	Credit
ICBC Guangzhou Shisanhang Branch	2003.01.06-2006.01.02	5.49%	59,500,000.00	Mortgage
China ConstructionBank Liwan Branch	2002.12.02-2005.12.02	5.44%	27,680,000.00	Guaranty
			<u>127,180,000.00</u>	

27. Payables due after one year

Creditor	Content	30th June 2004	31st December 2003
Guangzhou Finance Bureau	State dividends	2,733,854.00	2,732,919.49
Guangxi Finance Bureau	State dividends	2,264,426.47	—
Others		26,187.74	883,863.68
		<u>5,024,468.21</u>	<u>3,616,783.17</u>

28. Government grants payable

Content	30th June 2004	31st December 2003
Government appropriation as science and technology fund	29,695,078.99	28,402,491.94
Interest subsidies of government	11,386,230.79	16,926,405.54
Special fund for development of technology export	1,567,019.07	925,000.00
GMP relocation project-draining project	640,000.00	640,000.00
	<u>43,288,328.85</u>	<u>46,893,897.48</u>

29. Share Capital

	31st December 2003	Addition	Reduction	30th June 2004
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>

30. Capital Surplus

	31st December 2003	Addition	Reduction	30th June 2004
Share premium	916,129,772.47	—	—	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	14,459,816.32	—	—	14,459,816.32
Other capital surplus	186,615,960.40	1,066,935.10	—	187,682,895.50
Exchange gain on foreign currency capital	373,893.09	—	—	373,893.09
	<u>1,119,572,202.41</u>	<u>1,066,935.10</u>	<u>—</u>	<u>1,120,639,137.51</u>

The current increase of capital surplus resulted from transfer of government appropriation of the subsidiary°XGuangzhou Pharmaceuticals Corporation.

31. Reserve fund

	31st December 2003	Addition	Reduction	30th June 2004
Statutory reserve fund	193,344,763.64	—	—	193,344,763.64
Statutory public welfare fund	134,458,560.41	—	—	134,458,560.41
Discretionary reserve fund	83,668,865.95	—	—	83,668,865.95
Transfer from tax exemption	4,973,493.07	—	—	4,973,493.07
	<u>416,445,683.07</u>	<u>—</u>	<u>—</u>	<u>416,445,683.07</u>

32. Revenue from main operations

	Six months ended 30th June 2004	Six months ended 30th June 2003
Manufacturing and selling	982,388,758.16	970,508,937.38
Wholesale	2,788,060,798.42	2,315,061,620.04
Retail	123,158,245.37	190,793,506.00
Import & export sales	97,086,330.17	101,068,415.54
	<u>3,008,305,373.96</u>	<u>2,606,923,541.58</u>
	<u>3,990,694,132.12</u>	<u>3,577,432,478.96</u>

33. Cost of main operations

	Six months ended 30th June 2004	Six months ended 30th June 2003
Manufacturing and selling	457,111,438.30	451,383,776.89
Wholesale	2,627,346,061.40	2,169,596,683.70
Retail	96,585,893.43	144,714,174.62
Import & export sales	91,222,734.56	95,099,512.19
	<u>2,815,154,689.39</u>	<u>2,409,410,370.51</u>
	<u>3,272,266,127.69</u>	<u>2,860,794,147.40</u>

34. Sales tax and levies

	Six months ended 30th June 2004	Six months ended 30th June 2003
Business tax	306,338.49	536,409.93
City construction tax	9,347,901.40	8,514,120.86
Education surcharge	4,017,040.02	3,560,332.71
Others	23,019.61	9,904.90
	<u>13,694,299.51</u>	<u>12,620,768.40</u>

35. Profit from other operations

	Six months ended 30th June 2004	Six months ended 30th June 2003
Income from other operations		
Rental	15,931,695.49	16,487,004.54
Sales of raw material	1,209,729.70	491,483.77
Consultancy income	2,677,270.40	1,772,101.10
Storage and meeting income	178,525.60	2,280,906.04
Products promotion income	673,028.75	—
Income from managing member store	86,000.00	—
Trademark income	55,950.00	80,374.71
Others	1,628,858.37	1,449,083.06
	<u>22,441,058.31</u>	<u>22,560,953.22</u>
Cost of other operations		
Rental	2,158,176.22	2,072,668.39
Sales of raw material	724,883.15	145,172.00
Tax payable and sur-tax	353,083.58	397,116.88
Housing service fee	74,606.56	101,992.74
Others	742,156.52	396,092.87
	<u>4,052,906.03</u>	<u>3,113,042.88</u>
Profit from other operations	<u>18,388,152.28</u>	<u>19,447,910.34</u>

36. Financial expenses

	Six months ended 30th June 2004	Six months ended 30th June 2003
Interest expense	20,652,106.09	17,712,685.44
Interest income	(4,089,867.83)	(8,929,974.78)
Exchange loss	34,849.88	—
Financial institution charges	1,081,742.63	963,079.87
Others	6,150.00	164.04
	<u>17,684,980.77</u>	<u>9,745,954.57</u>

The current financial expense was increased by 81.46%, because:

- (1) The closing balance of long-term loans is increased by 20% than the beginning balance, leading to increase in interest expense;
- (2) Subsidiaries of the Group sold 200 million of accounts receivable to the bank, adding the interest expense of discount.

37. Investment income

	Six months ended 30th June 2004	Six months ended 30th June 2003
1. Short-term investment		
Stock investment	1,157,131.60	566,156.16
Debt investment	(1,181,716.07)	850,220.62
2. Other equity investment		
Cost method	391,450.95	280,536.31
Equity method	(1,144,307.00)	(1,820,286.80)
	<u>(777,440.50)</u>	<u>(123,373.71)</u>

38. Subsidies income

The current subsidies income was decreased by 100% than that of last year because no subsidies income occurred in the current year.

39. Non-operating income

	Six months ended 30th June 2004	Six months ended 30th June 2003
Net profit from disposal of fixed assets	21,200.00	120,763.26
Sales of obsolete material	73,176.21	45,412.46
Fine	17,767.52	11,367.20
MTR removal compensation	3,429,361.88	182,928.86
Others	746,565.71	304,172.75
	<u>4,288,071.32</u>	<u>664,644.53</u>

The current non-operating income was increased by 545.17% than that of last year, mainly caused by the increase of MTR removal compensation.

40. Non-operating expenses

	Six months ended 30th June 2004	Six months ended 30th June 2003
Net loss on disposal of fixed assets	2,057,280.22	2,912,859.00
Donation	397,032.41	1,470,372.09
Fine	3,215,209.43	90,328.92
Overdue fine	2,396.77	17,142.84
Exceptional loss	—	3,396.33
Urban dyke protecting expenses	2,527,536.19	4,376,577.42
Family control bonus	370,134.70	564,728.97
Others	217,850.23	77,066.63
	<u>8,787,439.95</u>	<u>9,512,472.20</u>

41. Other cash received relating to operating activities

Main item	Six months ended 30th June 2004
Interest income	4,089,867.83
Consulting and promotion income	3,270,000.00
Rental income	15,931,695.49
Removal compensation	<u>3,429,361.88</u>

42. Cash paid relating to other operating activities

Main item	Six months ended 30th June 2004
Transportation expense	27,344,784.00
Advertising expense	130,038,700.00
Meeting expense	24,827,135.00
Traveling expense	12,321,188.00
Repair expense	8,469,360.00
Consulting expense	3,645,508.60
Entertainment expense	11,713,282.00
Leasing expense	17,804,090.00
Transportation expense	2,844,768.00
Electricity expense	3,094,050.00
Property insurance	<u>1,957,911.00</u>

VII. NOTES TO THE ACCOUNTS OF THE PARENT COMPANY (AMOUNTS ARE IN RMB UNLESS OTHERWISE STATED)

1. Other receivables

Aging	Balance	30th June 2004		
		Proportion to the total	Bad debts provision	Accrual proportion
Within 1 year	119,721,375.14	31.33%	—	—
1~2 years	55,754,549.35	14.59%	—	—
2~3 years	69,954,760.22	18.31%	—	—
3~4 years	68,210,378.37	17.85%	—	—
4~5 years	29,065,855.76	7.61%	—	—
Over 5 years	39,402,043.54	10.31%	502,043.54	1.27%
	<u>382,108,962.38</u>	<u>100.00%</u>	<u>502,043.54</u>	<u>0.13%</u>

Aging	Balance	31st 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>	<u>100.00%</u>	<u>502,043.54</u>	<u>0.16%</u>

The above other receivables included 6,087,542.19 due from the Holding.

2. Long-term equity investments

Name of investee	Holding percentage	Cost	Equity pickup during current period	Accumulated equity pickup	30th June 2004
Guangzhou Xingqun Pharmaceutical Co., Ltd.	88.99%	125,322,318.71	(11,351,575.71)	43,833,299.69	169,155,618.40
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	90.36%	156,209,321.79	(3,681,092.11)	140,724,213.10	296,933,534.89
Guangzhou Chenliji Pharmaceutical Factory	100.00%	98,465,344.60	(3,272,995.11)	87,806,909.20	186,272,253.80
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	54.04%	45,000,000.00	(68,543.51)	(6,589,110.66)	38,410,889.34
Guangzhou Qixing Pharmaceutical Factory	100.00%	126,775,482.62	(158,524.28)	36,254,261.87	163,029,744.49
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	88.40%	101,489,814.94	1,778,737.37	(10,898,306.36)	90,591,508.58
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	87.77%	144,298,132.51	(2,916,353.19)	8,566,875.17	152,865,007.68
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	92.48%	102,035,124.44	(3,234,813.68)	25,472,250.15	127,507,374.59
Guangzhou Pharmaceuticals Corporation	90.09%	230,189,155.53	(306,254.19)	121,862,828.47	352,051,984.00
Guangzhou Chinese Medicine Corporation	100.00%	69,051,978.34	(47,356,179.77)	(24,177,019.13)	44,874,959.21
Guangzhou Pharmaceutical Import & Export Corporation	100.00%	17,957,328.73	512,907.33	2,376,757.07	20,334,085.80
Guangzhou Bio-Technology Co., Ltd.	94.86%	66,500,000.00	(3,292,395.30)	(10,135,900.62)	56,331,459.36
Guangzhou Huanye Pharmaceutical Co., Ltd.	59.70%	15,331,246.76	26,649.97	7,480.75	15,289,110.45
Guangzhou Pharmaceutical Holdings Limited					
Yingbang Marketing Co., Ltd.	51.00%	3,888,713.99	313,801.23	313,801.23	4,122,048.16
Guangxi Yingkang Pharmaceutical Co., Ltd.	51.00%	21,717,000.00	(31,190.62)	(31,190.62)	21,667,016.89
Golden Eagle Asset Management Co., Ltd.	20.00%	20,000,000.00	(752,023.10)	(5,423,399.70)	14,576,600.30
Jihua Medical Apparatus Company Limited	24.00%	4,200,000.00	(182,073.11)	(1,210,020.32)	2,989,979.68
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	38.00%	765,000.00	—	—	765,000.00
Nanhai Nanfang Packaging Co., Ltd.	21.42%	30,000,000.00	—	—	30,000,000.00
Guoyao Group Industrial Co., Ltd.	10.00%	8,000,000.00	—	—	8,000,000.00
Everbright Bank	0.30%	10,725,000.00	—	—	10,725,000.00
			<u>(73,971,917.78)</u>	<u>408,753,729.29</u>	<u>1,806,493,175.62</u>

3. Income from investment

Item	Six months ended 30th June 2004	Six months ended 30th June 2003
Stock investment	1,157,131.62	566,156.16
Debt investment	(1,181,716.07)	850,220.61
Long-term investment under equity method	40,389,576.47	104,253,631.37
	40,364,992.02	105,670,008.14

VIII. INFORMATION CATEGORIZED BY INDUSTRY

Industry	Turnover		Cost of sales		Profit from principal activities	
	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000
Manufacturing	982,389	970,509	457,111	451,384	525,278	519,125
Trade	3,008,305	2,606,923	2,815,155	2,409,410	193,150	197,513
Wholesale	2,788,061	2,315,062	2,627,346	2,169,597	160,715	145,465
Retail	123,158	190,793	96,586	144,714	26,572	46,079
Import and export	97,086	101,068	91,223	95,099	5,863	5,969
Total	3,990,694	3,577,432	3,272,266	2,860,794	718,428	716,638

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS

(1) Related parties with control relationship

Name	Registered address	Relationship Principal business	Economic with the Company	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.	162 Nanzhou Road Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Wen Xinmin
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	West 11/F Times Square, 28 Tianhebei Road, Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	Mai Qijie
Guangzhou Chenlijie 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	Wei Dahua
Guangzhou Wanglaoji 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	Zhou Lushan
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.,	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
Guangzhou Pharmaceutical Holdings Limited	Back 59, North Shamian Street, Guangzhou	Wholesale & retail	Subsidiary	Company with limited liabilities	He Shuhua
Yingbang Marketing Co., Ltd.					
Guangxi Yingkang Pharmaceutical Co., Ltd.	195 Changgang Road, Xining, Guangxi	Production and sales	Subsidiary	Company with limited liabilities	He Shuhua

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

Name	31st December	Addition	Decrease	30th June
	2003			2004
	RMB'000	RMB'000	RMB'000	RMB'000
Guangzhou Pharmaceutical Holdings Company 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.	64,440	—	—	64,440
Guangzhou Wanglaoji 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.	83,280	—	—	83,280
Guangzhou Bio-Technology Co., Ltd.	70,100	—	—	70,100
Guangzhou Pharmaceutical Holdings Limited				
Yingbang Marketing Co., Ltd.	18,410	—	—	18,410
Guangxi Yingkang Pharmaceutical Co., Ltd.	11,250	26,090	—	37,340

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

Name	31st December 2003		Addition		Decrease		30th June 2004	
	Amount	%	Amount	%	Amount	%	Amount	%
	RMB'000		RMB'000		RMB'000		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	87.78	—	—	—	—	57,440	87.78
Guangzhou Wanglaoji 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	54.04	—	—	—	—	45,000	54.04
Guangzhou Bio-Technology Co., Ltd.	66,500	94.87	—	—	—	—	66,500	94.87
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	—	—	3,890	51	—	—	3,890	51
Guangxi Yingkang Pharmaceutical Co., Ltd.	—	—	21,720	51	—	—	21,720	51

(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	Joint venture
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

2. Purchase of goods

Company name	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000
Guangzhou Qiaoguang Pharmaceutical Factory	16,438	10,665
Guangzhou Mingxing Pharmaceutical Factory	15,826	13,921
Guangzhou Tianxin Pharmaceutical Company Limited	4,562	2,937
Guangzhou Hejigong Pharmaceutical Factory	1,870	1,488
Guangzhou Guanghua Pharmaceutical Company Limited	16,189	13,657
Guangzhou Sanitation Production Factory	1,305	2,261
Guangzhou South-China Medical Appliance Co., Ltd.	—	71
Guangzhou Pharmaceutical Goods and Supply Company	620	—
Baolian Development Company Limited	3,130	12,765
Guangzhou Zhongfu Medical Company Limited	67	—
Guangzhou Baiyunshan Enterprise Group	—	258
Guangzhou Baiyunshan Pharmaceutical Factory	186	219
Guangzhou Baiyunshan Chinese Medicine Factory	757	1,417
	60,950	59,661

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

3. Sales of goods

Company name	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000
Guangzhou Qiaoguang Pharmaceutical Factory	20,674	16,114
Guangzhou Mingxing Pharmaceutical Factory	393	14
Guangzhou Tianxin Pharmaceutical Company Limited	8,659	7,584
Guangzhou Hejigong Pharmaceutical Factory	732	963
Guangzhou Guanghua Pharmaceutical Company Limited	1,567	64
Guangzhou Sanitation Production Factory	692	690
Guangzhou South-China Medical Appliance Co., Ltd.	—	1
Guangzhou Pharmaceutical Goods and Supply Company	13	—
Guangzhou Pharmaceutical Economic Development Company	—	99
Guangzhou Zhongfu Medical Company Limited	—	1,007
Guangzhou Medical Industry Research Center	—	24
Guangzhou Baiyunshan Pharmaceutical Factory	5,196	13,347
Guangzhou Baiyunshan Chinese Medicine Factory	514	720
Guangzhou Baiyunshan External Use Medicine Factory	344	—
	38,784	40,626

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

	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000
Accounts receivable:		
Guangzhou Qiaoguang Pharmaceutical Factory	15,780	5,572
Guangzhou Mingxing Pharmaceutical Factory	284	288
Guangzhou Tianxin Pharmaceutical Company Limited	3,829	3,140
Guangzhou Hejigong Pharmaceutical Factory	224	18
Guangzhou Guanghua Pharmaceutical Company Limited	628	434
Guangzhou Sanitation Production Factory	509	329
Guangzhou Pharmaceutical Economic Development Company	—	26
Guangzhou Zhongfu Medical Company Limited	—	188
Guangzhou Baiyunshan Pharmaceutical Factory	9,629	7,766
Guangzhou Baiyunshan Chinese Medicine Factory	1,011	852
Guangzhou Baiyunshan External Use Medicine Factory	14	—
Accounts payable:		
Guangzhou Qiaoguang Pharmaceutical Factory	1,443	987
Guangzhou Mingxing Pharmaceutical Factory	1,377	487
Guangzhou Tianxi Pharmaceutical Company Limited	558	438
Guangzhou Hejigong Pharmaceutical Factory	106	106
Guangzhou Guanghua Pharmaceutical Company Limited	1,226	782
Guangzhou Sanitation Production Factory	422	962
Guangzhou South-China Medical Appliance Co., Ltd.	—	23
Guangzhou Pharmaceutical Goods and Supply Company	470	22
Guangzhou Pharmaceutical Economic Development Company	—	17
Baolian Development Company Limited	5,833	361
Guangzhou Zhongfu Medical Company Limited	67	—
Guangzhou Medical Industry Research Center	—	18
Guangzhou Baiyunshan Pharmaceutical Factory	90	47
Guangzhou Baiyunshan Chinese Medicine Factory	159	297

	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000
Other receivables:		
Guangzhou Pharmaceutical Holdings Company Limited	7,527	7,227
Guangzhou South-China Medical Appliance Co., Ltd.	100	100
Baolian Development Company Limited	6,795	8,222
Guangzhou Zhongfu Medical Company Limited	2	3
Other payables:		
Guangzhou Pharmaceutical Holdings Company Limited	14,308	13,814
Guangzhou Pharmaceutical Goods and Supply Company	3	—
Baolian Development Company Limited	2,077	—
Guangzhou Zhongfu Medical Company Limited	207	207
Guangzhou Medical Industry Research Center	—	831

5. Provision or receipt of services

Item	<i>Note</i>	Six months ended 30th June 2004	Six months ended 30th June 2003
Service fee on staff housing	[1]	135	198
Comprehensive service fee	[2]	450	426
		<u>585</u>	<u>624</u>

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

Note [2] Pursuant to the Composite Services Agreement entered into by the Company and the Holding on 1st 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 31st December 1997 plus a 10% annual increment based on the fee rate of the previous year. The Composite Service Agreement will be expired on 31st December 2007.

6. Rental

Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and the Holding on 1st September 1997, the Holding has granted to the Company the right to use certain premises such as warehouses and offices for a term of 3 years 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. The Company paid the above rent with a sum of 1,453 thousand (last cumulated: 1,297 thousand). The said Agreement will be expired on 31st August, 2007.

7. License fee

Pursuant to the Trademark License Agreement entered into by the Company and the Holding on 1st 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 be expired on 1st September 2007. The Company shall pay the above License fee of RMB4,310 thousand for the current period (last cumulated: 3,536 thousand).

8. Prepaid rental

Pursuant to the Premises Agreement entered into by the Company and the Holding on 28th 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 rental period shall be the longer of not less than 10 years or until the prepaid rental is fully offset. By 30th June, 2004, the balance of prepaid rental is RMB5,172 thousand.

9. The Company signed Property Trading Contract with the Holding on 6th February 2004, in which the Holding transferred 51% of shares of Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd. to the Company. On 27th February 2004 the Company paid 3,888,713.99 for the stock transfer on a lump sum basis to the Holding, thus obtained 51% shares of Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd..

X. CONTINGENT EVENTS

Up to 30th June 2004, there are no material contingent events in the Group.

XI. COMMITMENTS

Up to 30th June 2004, material commitments of the Group are as follows:

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Contracted but not provided for construction in progress and machinery and equipment	226,711	231,001
Commitment approved but without contract signed	143,237	135,692

XII. NON-ADJUSTING EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Up to the report date, there are no material non-adjusting events occurring after the balance sheet date in the Group.

XIII. DEBT RESTRUCTURING EVENTS

Up to 30th June 2004, there are no debt restructuring events in the Group.

XIV. NON-MONETARY TRANSACTIONS

Up to 30th June 2004, there are no material non-monetary transactions in the Group.

XV. ANALYSIS ON THE CHANGED ITEMS IN THE INTERIM FINANCIAL REPORT

As at 30th June 2004 and 31st December 2003, movement of items of consolidated balance sheet with changes of over 30%, balance of which is above 5% of total assets of the Company and its subsidiaries at 30th June 2004, and movement item of consolidated profit and loss account with changes of over 30%, amount of which is above 10% of total profit of the Company and its subsidiaries for the six months ended 30th June 2004 are set out as follow:

Items	As at 30th June 2004	As at 31st December 2003	Change	
			RMB	%
Accounts receivable (less: bad debt provision) (Note 1)	1,152,103,215.38	878,361,678.85	273,741,536.53	31.17
Items	For the six months ended 30th June 2004	For the six months ended 30th June 2003	Change RMB	%
Financial expenses (Note 2)	17,684,980.77	9,745,954.57	7,939,026.20	81.46
Non-operating income (Note 3)	4,288,071.32	664,644.53	3,623,426.79	545.17

- 1) Accounts receivable increased by 31.71% compared with 2003 due to increased turnover and longer credit terms offered to hospitals by trading subsidiaries.
- 2) Financial expenses increased by 81.46% compared with the same period of 2003 due to the around 20% increase in long-term borrowings, which led to increased interest expenses, and increased discount interest, which was because one of the subsidiaries in the Group discounted approximately RMB200,000,000 accounts receivable to the bank.
- 3) Non-operating income increased by 545.17% compared with the same period of 2003 due to increased compensation income of relocation in relation to subway project.

XVI. RECONCILIATION OF 2004 INTERIM RESULTS AND NET ASSETS BETWEEN FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP (UNIT: RMB'000):

	Note	30th June 2004 (Unaudited) RMB'000	31st December 2003 (Audited) RMB'000
Net assets under PRC Accounting Standards and Systems		2,413,698	2,429,476
Intangible asset capitalised	1	53,348	58,571
Difference in fixed assets revaluation	2	131,820	132,808
Provision for employee benefits	4	(64,044)	(66,782)
Deferred taxation	5	20,157	12,708
Difference in minority interests	6	(18,140)	(15,364)
Net assets under HK GAAP		<u>2,536,839</u>	<u>2,551,417</u>

		For the six months ended 30th June 2004 (Unaudited) RMB'000	For the six months ended 30th June 2003 (Unaudited) RMB'000
Net profit under PRC Accounting Standards and Systems:		31,809	93,613
Amortisation of intangible asset capitalised	1	(5,223)	(5,223)
Additional depreciation on revalued fixed assets	2	(988)	(988)
Research and development cost overcharged		—	3,062
Government subsidies recognised as revenue	3	1,100	—
Provision for employee benefits	4	2,738	999
Deferred taxation credit / (charge)	5	7,449	(1,426)
Reversal of bad debts provision		—	1,042
Difference in minority interests	6	(2,809)	23
Profit attributable to shareholders under HK GAAP		<u>34,076</u>	<u>91,102</u>

Explanation for difference

- 1) 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 recognized. Under PRC accounting standards and systems, the staff quarter reform costs are written off against retained earnings when it incurred.
- 2) 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.
- 3) 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 recognized as other income in the profit and loss account and are transferred from profit after taxation to capital reserve.
- 4) On 1st 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.
- 5) 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 utilized.
- 6) This is resulted from the above difference in the accounts prepared under PRC Accounting Standards and Systems and HK GAAP.

INTERIM FINANCIAL REPORT PREPARED IN ACCORDANCE WITH HK SSAP 25 (UNAUDITED)

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	<i>Note</i>	Unaudited Six months ended 30th June	
		2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	2	3,990,729	3,577,432
Cost of sales		(3,272,460)	(2,860,794)
Gross profit		718,269	716,638
Other revenues		30,358	27,193
Distribution, administrative and other operating expenses		(637,336)	(566,426)
Operating profit	3	111,291	177,405
Finance costs		(22,482)	(15,607)
Share of profits less losses of Jointly controlled entities		—	(225)
Associated companies		(239)	161
Profit before taxation		88,570	161,734
Taxation	4	(45,488)	(62,227)
Profit after taxation		43,082	99,507
Minority interests		(9,006)	(8,405)
Profit attributable to shareholders		<u>34,076</u>	<u>91,102</u>
Dividend	5	<u>48,654</u>	<u>48,654</u>
Earnings per share	6	<u>RMB0.042</u>	<u>RMB0.112</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2004 AND 31ST DECEMBER 2003

	<i>Note</i>	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Non-current assets			
Intangible assets	7	61,045	61,483
Fixed assets and construction in progress	7	1,599,149	1,537,846
Interests in associated companies		6,342	5,292
Investment securities		68,714	68,873
Deferred tax assets	14	63,657	56,533
		<u>1,798,907</u>	<u>1,730,027</u>
Current assets			
Inventories		846,593	1,067,900
Trade and other receivables	8	1,610,099	1,289,775
Trading securities		18,840	49,500
Bank balances and cash		861,061	816,889
		<u>3,336,593</u>	<u>3,224,064</u>
Current liabilities			
Trade and other payables	9	1,438,111	1,271,128
Taxation payable		19,757	44,825
Current portion of long-term liabilities	10	20,000	30,000
Short-term bank loans	11	689,120	664,230
		<u>2,166,988</u>	<u>2,010,183</u>
Net current assets		<u>1,169,605</u>	<u>1,213,881</u>
Total assets less current liabilities		<u>2,968,512</u>	<u>2,943,908</u>
Financed by:			
Share capital	12	810,900	810,900
Reserves		1,725,939	1,740,517
Shareholders' funds		2,536,839	2,551,417
Minority interests		210,838	182,627
Non-current liabilities			
Long-term liabilities	10	127,180	107,180
Employee benefits	13	50,155	58,858
Deferred tax liabilities	14	43,500	43,826
		<u>2,968,512</u>	<u>2,943,908</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited							
				Surplus reserves			Retained earnings	Total
	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1st January 2004	810,900	781,134	397,589	194,306	134,459	87,681	145,348	2,551,417
Profit for the period	—	—	—	—	—	—	34,076	34,076
Dividend	—	—	—	—	—	—	(48,654)	(48,654)
Transfer	—	—	405	—	—	—	(405)	—
At 30th June 2004	<u>810,900</u>	<u>781,134</u>	<u>397,994</u>	<u>194,306</u>	<u>134,459</u>	<u>87,681</u>	<u>130,365</u>	<u>2,536,839</u>

	Unaudited							
				Surplus reserves			Retained earnings	Total
	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1st January 2003	810,900	781,134	390,171	160,635	109,729	66,066	135,445	2,454,080
Profit for the period	—	—	—	—	—	—	91,102	91,102
Dividend	—	—	—	—	—	—	(48,654)	(48,654)
At 30th June 2003	<u>810,900</u>	<u>781,134</u>	<u>390,171</u>	<u>160,635</u>	<u>109,729</u>	<u>66,066</u>	<u>177,893</u>	<u>2,496,528</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
 FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited Six months ended 30th June	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Net cash inflow from operating activities	126,797	44,982
Net cash used in investing activities	(117,296)	(174,323)
Net cash inflow from financing activities	34,671	22,700
Increase/(Decrease) in cash and cash equivalents	44,172	(106,641)
Cash and cash equivalents at 1st January	816,889	998,784
Cash and cash equivalents at 30th June	<u>861,061</u>	<u>892,143</u>
Analysis of balances of cash and cash equivalents: Bank balances and cash	<u>861,061</u>	<u>892,143</u>

NOTES TO CONDENSED CONSOLIDATED ACCOUNTS

1 Basis of preparation and accounting policies

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

These condensed consolidated accounts should be read in conjunction with the 2003 annual accounts. The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2 Segment information

The Group is organised into the following business segments:

- Manufacturing of Chinese Patent Medicine (“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.

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

	Six months ended 30th June 2004					
	Manufacturing <i>RMB'000</i>	Wholesale <i>RMB'000</i>	Retail <i>RMB'000</i>	Import and export <i>RMB'000</i>	Elimination <i>RMB'000</i>	Group <i>RMB'000</i>
Turnover						
External	982,424	2,788,061	123,158	97,086	—	3,990,729
Internal	27,613	101,172	3,142	—	(131,927)	—
Total	<u>1,010,037</u>	<u>2,889,233</u>	<u>126,300</u>	<u>97,086</u>	<u>(131,927)</u>	<u>3,990,729</u>
Segment results	<u>122,244</u>	<u>12,321</u>	<u>(4,440)</u>	<u>2,529</u>	<u>(14,179)</u>	118,475
Unallocated costs						(7,184)
Operating profit						111,291
Finance costs						(22,482)
Share of profits less losses of Associated companies	(239)					(239)
Profit before taxation						88,570
Taxation						(45,488)
Minority interests						(9,006)
Profit attributable to shareholders						<u>34,076</u>

Six months ended 30th June 2003						
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export RMB'000	Elimination RMB'000	Group RMB'000
Turnover						
External	970,509	2,315,062	190,793	101,068	—	3,577,432
Internal	27,122	109,939	4,140	—	(141,201)	—
Total	<u>997,631</u>	<u>2,425,001</u>	<u>194,933</u>	<u>101,068</u>	<u>(141,201)</u>	<u>3,577,432</u>
Segment results	<u>143,929</u>	<u>45,386</u>	<u>6,175</u>	<u>1,693</u>	<u>(13,113)</u>	184,070
Unallocated costs						(6,665)
Operating profit						177,405
Finance costs						(15,607)
Share of profits less losses of						
Jointly controlled entities	(225)					(225)
Associated companies	161					161
Profit before taxation						161,734
Taxation						(62,227)
Minority interests						(8,405)
Profit attributable to shareholders						<u>91,102</u>

3 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
Depreciation and amortisation of fixed assets	57,772	48,172
Amortisation of intangible assets	5,446	5,223
Loss on disposal of fixed assets	2,057	1,676
Impairment charge of investment securities	752	—
Write-down of inventories to net realisable value	24,494	—
Staff costs	<u>299,976</u>	<u>284,583</u>

4 Taxation

Enterprise income tax of the People's Republic of China (the "PRC") has been provided at the rate of 33% (2003: 33%) on the estimated assessable profit for the period. Companies comprising the Group that are incorporated outside the PRC are liable to pay income tax on their taxable income in accordance with the tax laws of the countries in which they operate.

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

	Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
Current taxation		
— PRC enterprise income tax	52,938	60,757
Deferred taxation relating to the origination and reversal of temporary differences	<u>(7,450)</u>	<u>1,426</u>
	<u>45,488</u>	<u>62,183</u>
Share of taxation attributable to associated companies	—	44
Taxation charge	<u>45,488</u>	<u>62,227</u>

4 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:

	Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
Profit before taxation	88,570	161,734
Calculated at a taxation rate of 33% (2003: 33%)	29,228	53,372
Effect of different taxation rates in a subsidiary	(1,201)	(1,223)
Expenses not deductible for taxation purposes	17,461	11,919
Tax refund	—	(1,841)
Taxation charge	<u>45,488</u>	<u>62,227</u>

5 Dividend

	Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
2003 final dividend of RMB 0.06 (2002 final dividend, paid, of RMB 0.06) per share	<u>48,654</u>	<u>48,654</u>

At a meeting held on 29th March 2004, the directors proposed a final dividend of RMB0.06 per share for the year ended 31st December 2003, which was paid in June and July 2004 for H and A shares respectively and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2004.

The Directors do not recommend the payment of interim dividend for the six months ended 30th June 2004.

6 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB34,076,000 (2003: RMB91,102,000) and the weighted average number of 810,900,000 shares (2003: 810,900,000 shares) in issue during the period.

7 Capital expenditure

	Intangible assets RMB'000	Fixed assets and construction in progress RMB'000
Opening net book amount as at 1st January 2004	61,483	1,537,846
Additions	5,008	122,172
Disposals	—	(3,198)
Depreciation and amortisation	(5,446)	(57,772)
Other transfer out of impairment charge	—	101
Closing net book amount as at 30th June 2004	<u>61,045</u>	<u>1,599,149</u>

8 Trade and other receivables

	30th June 2004 RMB'000	31st December 2003 RMB'000
Trade receivables (Note)	1,210,151	930,728
Other receivables and prepayments	385,525	335,238
Due from ultimate holding company and fellow subsidiaries	14,423	23,809
	<u>1,610,099</u>	<u>1,289,775</u>

8 Trade and other receivables (Continued)

Note: The ageing analysis of the trade receivables net of doubtful debt provision at 30th June 2004 is as follows:

	30th June 2004 RMB'000	31st December 2003 RMB'000
Within 6 months	1,130,992	860,302
6 months to 1 year	43,684	53,452
Over 1 year	35,475	16,974
	<u>1,210,151</u>	<u>930,728</u>

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

9 Trade and other payables

	30th June 2004 RMB'000	31st December 2003 RMB'000
Trade payables (Note)	892,470	857,682
Other payables and accrued charges	529,047	399,684
Due to ultimate holding company and fellow subsidiaries	16,594	13,762
	<u>1,438,111</u>	<u>1,271,128</u>

Note: The ageing analysis of the trade payables at 30th June 2004 is as follows:

	30th June 2004 RMB'000	31st December 2003 RMB'000
Within 1 year	841,376	811,038
1 year to 2 years	19,444	17,399
Over 2 years	31,650	29,245
	<u>892,470</u>	<u>857,682</u>

10 Long-term liabilities

	30th June 2004 RMB'000	31st December 2003 RMB'000
Bank loans		
Secured	59,500	59,500
Unsecured	87,680	77,680
	<u>147,180</u>	<u>137,180</u>
Less: current portion of long-term liabilities	<u>(20,000)</u>	<u>(30,000)</u>
	<u>127,180</u>	<u>107,180</u>

At 30th June 2004, the Group's bank loans were repayable as follows:

	30th June 2004 RMB'000	31st December 2003 RMB'000
Within one year	20,000	30,000
In the second year	67,680	47,680
In the third to fifth year	59,500	59,500
	<u>147,180</u>	<u>137,180</u>

11 Short-term bank loans

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Secured	104,300	148,300
Unsecured	584,820	515,930
	689,120	664,230

12 Share capital

	Registered, issued and fully paid	
	31st December 2003 and 30th June 2004	
	No. of shares	RMB'000
State Shares	513,000,000	513,000
H Shares	219,900,000	219,900
A Shares	78,000,000	78,000
	810,900,000	810,900

13 Employee benefits

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Medical insurance scheme (Note c)	61,605	64,333
Housing allowance scheme (Note d)	14,749	12,062
	76,354	76,395
Less: Current portion of employee benefits included in other payables and accrued charges	(26,199)	(17,537)
	50,155	58,858

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in the PRC 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 obligations for payments of pension contributions are calculated at a rate of 20% based on the total salaries of its employees.

The Group has no contributions payable to the pension scheme as at 30th June 2004 (31st December 2003: Nil).

(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 as at 30th June 2004 (31st December 2003: Nil).

(c) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1st December 2001, it is mandatory for the Company and its subsidiaries in Guangzhou City 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 8.0% of the preceding year's average annual salary of the Group or the preceding year's average annual salary of Guangzhou City, depending on the length of the employment period of the employee concerned.

(d) Housing allowance scheme

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

14 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2003: 33%).

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

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
At the beginning of the period/year	(12,707)	(26,589)
Deferred taxation (credited)/charged to profit and loss account	(7,450)	13,882
At the end of the period/year	(20,157)	(12,707)

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

Deferred tax assets	Provisions		Impairment of assets		Employee benefits		Others		Total	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
At 1st January	(19,171)	(25,335)	(7,349)	(18,699)	(21,764)	(23,387)	(8,249)	(5,041)	(56,533)	(72,462)
(Credited)/charged to profit and loss account	(2,986)	6,164	(2,549)	11,350	650	1,623	(2,239)	(3,208)	(7,124)	15,929
At 30th June 2004/ 31st December 2003	(22,157)	(19,171)	(9,898)	(7,349)	(21,114)	(21,764)	(10,488)	(8,249)	(63,657)	(56,533)

Deferred tax liabilities	Fixed assets revaluation		Research and development expenses		Total	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
At 1st January	43,826	44,478	—	1,395	43,826	45,873
Credited to profit and loss account	(326)	(652)	—	(1,395)	(326)	(2,047)
At 30th June 2004/ 31st December 2003	43,500	43,826	—	—	43,500	43,826

The amounts shown in the balance sheet include the following:

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Deferred tax assets to be recovered after more than 12 months	28,096	26,145
Deferred tax liabilities to be settled after more than 12 months	42,848	43,174
	<hr/>	<hr/>
15 Capital commitments for fixed assets		
	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Contracted but not provided for	226,711	231,001
Authorised but not contracted for	143,237	135,692
	<hr/>	<hr/>
	369,948	366,693
	<hr/>	<hr/>

16 Acquisition

On 27th February 2004, the Group acquired 51% of the share capital of Guangzhou Guangyao Yingbang Marketing Co., Ltd. ("GGYMCL"), which engages in pharmaceutical trading and is incorporated in Guangzhou, the PRC. The consideration of approximately RMB3,889,000, which represents the fair value of the net identifiable assets of GGYMCL at the date of acquisition, was settled in cash. The acquired business contributed revenues of approximately RMB34,227,000 and operating profit of approximately RMB6,389,000 to the Group for the period from 27th February 2004 to 30th June 2004.

The assets and liabilities arising from the acquisition are as follows:

	<i>RMB'000</i>
Fixed assets	343
Borrowings	(3,570)
Other assets less liabilities	7,116
	<hr/>
Fair value of net asset	3,889
	<hr/>
Total purchase consideration	3,889
	<hr/>

17 Related party transactions

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

	Note	Six months ended 30th June	
		2004 RMB'000	2003 RMB'000
Ultimate holding company			
Licence fee expense	a	4,310	3,536
Service fee expense	b	450	426
Welfare facilities fee expense	c	135	198
Rental expense	d	907	1,297
Capital contribution to a subsidiary of the Company	e	3,889	25,634
Jointly controlled entities			
Sales of semi-finished goods	f	—	551
An associated company			
Sales of finished goods	f	—	1,007
Purchases of finished goods and raw materials	f	67	—
Fellow subsidiaries			
Sales of finished goods and raw materials	f	38,784	48,318
Purchases of finished goods and raw materials	f	60,883	81,434

- (a) Pursuant to the Trademark Licence Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("GPHL"), its ultimate holding company, on 1st September 1997, GPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GPHL 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 GPHL on 1st September 1997, GPHL 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 GPHL's total depreciation charges of the welfare facilities in the year ended 31st December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31st December 2007.
- (c) Pursuant to the Accommodation Services Agreement entered into by the Company and GPHL on 1st September 1997 and supplemented by a notice dated 31st December 1997, GPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31st December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GPHL on 6th February 2004, GPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three and a half 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 will expire on 31st August 2007.
- (e) During the period, the Company had acquired 51% equity interest in GGYMCL from GPHL in the form of cash.
- (f) The sales and purchases transactions with jointly controlled entities, an associated company and fellow subsidiaries were at terms similar to those transactions with other third parties.