

## THE FINANCIAL REPORT PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARD AND SYSTEMS (UNAUDITED)

### CONSOLIDATED BALANCE SHEET

As at 30 June 2005

**Form 1**  
Unit: RMB

ASSETS:	Notes	30 June 2005	31 December 2004
<b>Current assets:</b>			
Cash	VI-1	791,377,006.53	880,824,597.90
Short term investments	VI-2	13,110,000.00	18,562,000.00
Notes receivable	VI-3	304,437,220.32	185,209,600.23
Dividends receivable	VI-4	10,364,807.41	—
Interest receivable		—	—
Accounts receivable	VI-5	1,258,719,485.68	967,659,441.43
Other receivable	VI-6	109,453,514.35	111,782,083.42
Advance to suppliers	VI-7	80,317,882.41	160,243,931.81
Subsidy receivable	VI-8	2,926,620.31	2,224,155.35
Inventories	VI-9	1,048,905,034.23	1,077,924,756.16
Prepaid expenses	VI-10	100,560,131.68	89,835,431.99
Long-term debentures			
investments due within one year		—	—
Other current assets		—	—
<b>Total current Assets</b>		<b>3,720,171,702.92</b>	<b>3,494,265,998.29</b>
<b>Long-term investments:</b>			
long-term equity investments	VI-11	72,996,455.19	74,610,894.56
long-term debentures investments		—	—
<b>Total long-term investments</b>		<b>72,996,455.19</b>	<b>74,610,894.56</b>
Including: consolidation variance	VI-11	3,922,618.61	4,175,432.85
Including: equity investment differences			
<b>Fixed assets:</b>			
Fixed assets-cost	VI-12	1,926,326,086.37	1,980,499,364.41
Less: Accumulated depreciation	VI-12	611,134,029.23	583,351,522.12
Fixed assets-net value		1,315,192,057.14	1,397,147,842.29
Less: Provisions for fixed assets	VI-12	24,380,172.38	25,352,941.92
Net of fixed assets		1,290,811,884.76	1,371,794,900.37
Construction supplies		—	—
Construction work in progress	VI-13	151,342,362.57	119,645,075.10
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>1,442,154,247.33</b>	<b>1,491,439,975.47</b>
<b>Intangible assets &amp; other assets:</b>			
Intangible assets	VI-14	100,067,373.36	103,345,329.75
Long-term prepaid expenses	VI-15	17,188,836.39	19,215,827.64
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>117,256,209.75</b>	<b>122,561,157.39</b>
<b>Deferred tax:</b>			
Deferred tax debits		—	—
<b>Total Assets</b>		<b>5,352,578,615.19</b>	<b>5,182,878,025.71</b>

**CONSOLIDATED BALANCE SHEET (CONTINUED)**

As at 30 June 2005

**Form 1**

Unit: RMB

LIABILITIES & OWNERS' EQUITY	Notes	30 June 2005	31 December 2004
<b>Current liabilities:</b>			
Short-term loans	VI-16	906,057,161.23	937,458,830.03
Notes payable	VI-17	29,721,583.12	137,052,834.12
Accounts payable	VI-18	1,040,746,138.72	848,628,472.16
Advances from customers	VI-19	30,477,303.23	22,901,240.89
Accrue payroll	VI-20	87,383,375.29	50,994,217.94
Welfare payable		40,341,766.29	51,590,272.62
Dividends payable	VI-21	27,003,024.67	26,383.04
Tax payable	VI-22	41,662,048.52	24,041,244.06
Other liabilities	VI-23	3,486,226.28	2,880,392.94
Other payables	VI-24	208,129,602.54	265,572,457.79
Accrue expenses	VI-25	30,889,484.43	9,231,282.20
Estimated liabilities		—	—
Long-term liabilities			
due within 1 year	VI-26	99,500,000.00	47,680,000.00
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>2,545,397,714.32</b>	<b>2,398,057,627.79</b>
<b>Long-term liabilities:</b>			
Long-term loan	VI-27	30,000,000.00	109,500,000.00
Bonds payable		—	—
Long-term payable	VI-28	4,694,996.12	5,020,012.56
Special payables	VI-29	44,912,009.60	33,810,171.91
Other long-term liabilities		—	—
<b>Total long-term liabilities</b>		<b>79,607,005.72</b>	<b>148,330,184.47</b>
<b>Deferred tax:</b>			
Deferred tax credits		—	—
<b>Total liabilities</b>		<b>2,625,004,720.04</b>	<b>2,546,387,812.26</b>
Minority shareholders' equity		182,573,259.56	196,260,508.34
<b>Shareholders' equity:</b>			
Share capital	VI-30	810,900,000.00	810,900,000.00
Less: returned of investments		—	—
Net share capital		810,900,000.00	810,900,000.00
Capital surplus	VI-31	1,147,834,416.58	1,126,381,425.35
Reserved fund	VI-32	470,525,846.20	480,442,389.26
Including: public welfare fund	VI-32	150,564,612.94	153,572,065.40
Retained earnings		115,740,372.81	22,505,890.50
Lududing: Cash dividend planed to allocate		—	20,272,500.00
Exchange difference on foreign currency capital		—	—
Less: unconfirmed investment loss		—	—
<b>Total shareholders' equity</b>		<b>2,545,000,635.59</b>	<b>2,440,229,705.11</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>5,352,578,615.19</b>	<b>5,182,878,025.71</b>

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the period ended 30 June 2005

**Form 2-1**

Unit: RMB

Item	Notes	Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Sales</b>	VI-33	<b>4,596,172,011.27</b>	3,990,694,132.12
Less: Cost of sales	VI-34	<b>3,781,112,233.96</b>	3,272,266,127.69
Sales tax and levies	VI-35	<b>13,601,179.60</b>	13,694,299.51
<b>II. Profit from principal operations</b>		<b>801,458,597.55</b>	704,733,704.92
Add: Profit from other operations	VI-36	<b>21,041,587.55</b>	18,388,152.28
Less: Operating expenses		<b>301,438,593.12</b>	278,658,990.85
General and administrative expenses		<b>319,337,604.14</b>	330,447,617.90
Financial expenses	VI-37	<b>24,822,607.19</b>	17,684,980.77
<b>III. Operating profit</b>		<b>176,901,380.81</b>	96,330,267.68
Add: Investment income	VI-38	<b>(3,976,044.37)</b>	(777,440.50)
Subsidies income		<b>189,521.00</b>	—
Non-operating income	VI-39	<b>648,156.53</b>	4,288,071.32
Less: Non-operating expenses	VI-40	<b>3,058,098.59</b>	8,787,439.95
<b>IV. Total profit</b>		<b>170,704,915.38</b>	91,053,458.55
Less: Income tax		<b>60,004,570.92</b>	52,938,643.69
Less: Loss and gain of minority shareholders		<b>7,109,905.23</b>	6,306,170.15
Add: unrealized investment profit		—	—
<b>V. Net profit</b>		<b>103,590,439.23</b>	31,808,644.71

**SUPPLEMENTAL INFORMATION:**

No	Item	Six months ended 30 June 2005	Six months ended 30 June 2004
1	Revenue from sale or disposal of department or invested company	—	(381,806.29)
2	Loss incurred from natural disaster	—	—
3	Total profit increased (decreased) due to accounting policy alteration	—	—
4	Total profit increased (decreased) due to accounting estimation a alteration	—	—
5	Loss from debits reconstruction	—	—
6	Others	—	—

**SUPPLEMENTARY CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the period ended 30 June 2005

**Form 2-2***Unit: RMB*

Profit for the period	Six months ended 30 June 2005				Six months ended 30 June 2004			
	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 principal operations	31.49%	32.29%	0.99	0.99	29.20%	28.82%	0.87	0.87
Profit from operations	6.95%	7.13%	0.22	0.22	3.99%	3.94%	0.12	0.12
Net profit	4.07%	4.17%	0.13	0.13	1.32%	1.30%	0.04	0.04
Net profit after deduction of exceptional items	4.32%	4.53%	0.14	0.14	1.43%	1.41%	0.04	0.04

**CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION**

For the period ended 30 June 2005

**Form 3***Unit: RMB*

Item	Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Net profit</b>	<b>103,590,439.23</b>	31,808,644.71
Add: Retained earnings brought forward	22,505,890.50	82,558,496.93
Add: Transfer from others	9,916,543.08	—
<b>II. Profit distributable</b>	<b>136,012,872.81</b>	114,367,141.64
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	—	—
<b>III. Profit distributable to shareholders</b>	<b>136,012,872.81</b>	114,367,141.64
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	20,272,500.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—
<b>IV. Retained earnings</b>	<b>115,740,372.81</b>	65,713,141.64

**CONSOLIDATED STATEMENT OF CASH FLOW**

For the period ended 30 June 2005

**Form 4**  
*Unit: RMB*

Item	Notes	Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		4,978,199,501.40	4,405,975,434.18
Refund of tax and levy		4,935,073.43	9,196,604.01
Other cash received relating to operating activities	VI-42	49,079,457.54	36,225,627.84
<b>Subtotal of cash inflows</b>		5,032,214,032.37	4,451,397,666.03
Cash paid for goods or services		4,100,125,115.02	3,483,958,714.37
Cash paid to and on behalf of employees		271,779,744.25	250,372,211.25
Taxes paid		261,834,960.86	263,953,989.17
Other cash paid in relation to operating activities	VI-43	284,825,939.39	328,522,538.66
<b>Subtotal of cash outflows</b>		4,918,565,759.52	4,326,807,453.45
<b>Net cash flows from operating activities</b>		113,648,272.85	124,590,212.58
<b>II. Cash flows from investing activities</b>			
Cash received from sales of investments		184,981.59	36,152,119.73
Including: cash received from sales of subsidiaries		—	160,435.24
Cash received from investment income		—	3,643,100.23
Net Cash received from disposal of fixed assets, intangible assets and other long-term assets		389,982.91	354,279.64
Other cash received from investing activities		—	85,380.68
<b>Subtotal of cash inflows</b>		574,964.50	40,234,880.28
Cash paid to acquire fixed assets, intangible assets and other long-term assets		69,425,936.72	135,159,510.75
Cash paid to acquire investments		—	14,539,719.82
Other cash paid in relation to investing activities		—	8,000,000.00
<b>Subtotal of cash outflows</b>		69,425,936.72	157,699,230.57
<b>Net cash flows from investing activities</b>		(68,850,972.22)	(117,464,350.29)
<b>III. Cash flows from financing activities</b>			
Proceeds from acquiring investments		62,626,946.09	2,777,406.37
Including: cash received from minority shareholders equity investment of subsidiaries		62,626,946.09	2,777,406.37
Proceeds from borrowings		294,393,305.26	347,850,491.00
Other proceeds relating to financing activities		192,951,757.57	168,271,738.39
<b>Subtotal of cash inflows</b>		549,972,008.92	518,899,635.76
Cash repayments of amounts borrowed		377,247,866.81	321,960,491.00
Cash payments for distribution of dividends, profits or interest expenses		29,584,984.92	40,026,987.50
Including: cash payments for minority shareholders of subsidiaries		2,529,349.63	5,998,300.54
Other cash payments relating to financing activities		277,384,049.19	119,463,875.31
Including: cash payments for minority shareholders equity of subsidiaries		—	—
<b>Subtotal of cash outflows</b>		684,216,900.92	481,451,353.81
<b>Net cash flows from financing activities</b>		(134,244,892.00)	37,448,281.95
<b>IV. Effect of foreign exchange rate charges on cash</b>		—	—
<b>V. Net increase in cash and cash equivalents</b>		(89,447,591.37)	44,574,144.24

**CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)**

For the period ended 30 June 2005

**Form 4***Unit: RMB*

Supplemental Information	Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	103,590,439.23	31,808,644.71
Loss&gain of minority shareholders	7,109,905.23	6,306,170.15
Add: Provision for value impairment of assets	10,109,770.84	30,116,897.77
Depreciation of fixed assets	62,035,579.52	46,454,284.69
Amortization of intangible assets	2,306,402.52	1,528,722.15
Amortization of long-term prepaid expenses	4,824,939.49	5,867,221.35
Decrease in prepaid expenses (less: increase)	(10,724,699.69)	6,516,308.44
Increase in accrued expenses (less: decrease)	21,658,202.23	2,799,574.91
Losses on disposal of fixed, intangible assets and other long-term assets (less: gains)	299,084.60	(21,200.00)
Losses on scrapping of fixed assets	766,051.14	2,057,280.22
Financial expenses	27,055,635.30	20,652,106.09
Losses on investments (less: gains)	3,976,044.37	777,440.50
Defferd tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	39,702,754.65	204,204,353.60
Decrease in operating receivables (less: increase)	(296,962,859.65)	(278,490,623.99)
Increase in operating payables (less: decrease)	148,659,590.49	43,678,982.41
Others (*note)	(10,758,567.42)	334,049.58
Net cash flows from operating activities	113,648,272.85	124,590,212.58
<b>II. Investing and financing activities that do not involve cash receipts or payments:</b>		
Repayment of debts by the transfer of investments	—	—
Convertible bonds due within 1 year	—	—
Fixed assets obtained by financing lease	—	—
<b>III. Net increase in cash and cash equivalents</b>		
Cash at the end of period	791,377,006.53	861,013,185.38
Less: Cash at the beginning of the period	880,824,597.90	816,439,041.14
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of period	—	—
Net increase in cash and cash equivalents	(89,447,591.37)	44,574,144.24

*Note:* The amounts represented effect arising from change of consolidation method. As Guangzhou Wanglaoji Pharmaceutical Co., Ltd. accepted incremental capital from a new shareholder in March 2005, the Company changed from a controlling shareholder to a joint control shareholder and adopted consolidation by proportion for accounting for this investee.

**BALANCE SHEET**

As at 30 June 2005

**Form 5**  
Unit: RMB

<b>ASSETS:</b>	<i>Notes</i>	<b>30 June 2005</b>	31 December 2004
<b>Current assets:</b>			
Cash		<b>202,637,482.84</b>	201,807,672.50
Short term investments		<b>235,110,000.00</b>	18,562,000.00
Notes receivable		—	—
Dividends receivable		—	—
Interest receivable		<b>32,417,746.16</b>	—
Accounts receivable		—	—
Other receivable	VII-1	<b>275,052,654.22</b>	345,237,748.98
Advance to suppliers		—	—
Subsidy receivable		—	—
Inventories		—	—
Prepaid expenses		—	—
Long-term debentures investments due within one year		—	—
Other current assets		—	—
<b>Total current Assets</b>		<b>745,217,883.22</b>	565,607,421.48
<b>Long-term investments:</b>			
long-term equity investments	VII-2	<b>1,911,528,745.45</b>	1,877,883,028.41
long-term debentures investments		—	—
<b>Total long-term investments</b>		<b>1,911,528,745.45</b>	1,877,883,028.41
Including: equity investment differences		<b>2,338,186.15</b>	2,480,768.01
<b>Fixed assets:</b>			
Fixed assets-cost		<b>41,174,958.52</b>	41,005,158.52
Less: Accumulated depreciation		<b>15,325,897.27</b>	13,438,004.00
Fixed assets-net value		<b>25,849,261.25</b>	27,567,154.52
Less: Provision for fixed assets		<b>7,109,752.25</b>	7,109,752.25
Net of fixed assets		<b>18,739,509.00</b>	20,457,402.27
Construction materials		—	—
Construction work in progress		—	—
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>18,739,509.00</b>	20,457,402.27
<b>Intangible assets &amp; other assets:</b>			
Intangible assets		—	—
Long-term deferred expenses		<b>1,202,407.65</b>	1,492,460.43
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>1,202,407.65</b>	1,492,460.43
<b>Deferred tax:</b>			
Deferred tax debits		—	—
<b>Total Assets</b>		<b>2,676,688,545.32</b>	2,465,440,312.59

**BALANCE SHEET (CONTINUED)**

As at 30 June 2005

**Form 5**

Unit: RMB

<b>LIABILITIES &amp; OWNERS' EQUITY</b>	<b>30 June 2005</b>	31 December 2004
<b>Current liabilities:</b>		
Short-term loans	<b>87,000,000.00</b>	—
Notes payable	—	—
Accounts payable	—	—
Advances from customers	—	—
Accrue payroll	<b>2,347,170.18</b>	2,430,269.38
Welfare payable	<b>3,438,469.41</b>	3,346,137.21
Dividends payable	<b>20,297,276.09</b>	25,980.20
Tax payable	<b>18,304.41</b>	424,662.76
Other liabilities	<b>4,009.62</b>	21,220.74
Other payables	<b>7,255,741.48</b>	18,585,121.28
Accrue expenses	<b>1,967,906.00</b>	2,150,000.00
Estimated liabilities	—	—
Long-term liabilities due within 1 year	—	—
Other current liabilities	—	—
<b>Total current liabilities</b>	<b>122,328,877.19</b>	26,983,391.57
<b>Long-term liabilities:</b>		
Long-term loan	—	—
Bonds payable	—	—
Long-term payable	—	—
Special payables	—	—
Other long-term liabilities	—	—
<b>Total long-term liabilities</b>	—	—
<b>Deferred tax:</b>		
Deferred tax credits	—	—
<b>Total liabilities</b>	<b>122,328,877.19</b>	26,983,391.57
<b>Shareholders' equity:</b>		
Share capital	<b>810,900,000.00</b>	810,900,000.00
Less: returned of investments	—	—
Net share capital	<b>810,900,000.00</b>	810,900,000.00
Capital surplus	<b>1,146,973,069.59</b>	1,125,595,838.66
Reserved fund	<b>153,118,167.58</b>	153,118,167.58
Including: public welfare fund	<b>61,614,885.51</b>	61,614,885.51
Retained earnings	<b>443,368,430.96</b>	348,842,914.78
Cash dividend planed to allocate	—	20,272,500.00
<b>Total shareholders' equity</b>	<b>2,554,359,668.13</b>	2,438,456,921.02
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,676,688,545.32</b>	2,465,440,312.59



**PROFIT AND LOSS ACCOUNT**

For the period ended 30 June 2005

Item	Notes	<b>Form 6</b>	
		<i>Unit: RMB</i>	
		Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Sales</b>		—	—
Less: Cost of sales		—	—
Sales tax and levies		—	—
<b>II. Profit from prencipal operations</b>		—	—
Add: Profit from other operations		4,374,268.41	1,794,856.02
Less: Operating expenses		—	—
General and administrative expenses		13,164,929.36	8,334,795.43
Financial expenses		(865,493.62)	(784,288.06)
<b>III. Operating profit</b>		(7,925,167.33)	(5,755,651.35)
Add: Investment income	VII-3	122,720,286.49	40,364,992.02
Subsidies income		—	—
Non-operating income		3,150.02	6,900.00
Less: Non-operating expenses		253.00	96,468.57
<b>IV. Total profit</b>		114,798,016.18	34,519,772.10
Less: Income tax		—	—
Less: Loss and gain of minority shareholders		—	—
<b>V. Net profit</b>		114,798,016.18	34,519,772.10

**THE STATEMENT OF PROFIT DISTRIBUTION**

For the period ended 30 June 2005

Item	<b>Form 7</b>	
	<i>Unit: RMB</i>	
	Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Net profit</b>	114,798,016.18	34,519,772.10
Add: Retained earnings brought forward	348,842,914.78	356,049,259.87
Add: Transfer from others	—	—
<b>II. Profit distributable</b>	463,640,930.96	390,569,031.97
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	—	—
<b>III. Profit distributable to shareholders</b>	463,640,930.96	390,569,031.97
Less: Dividend for preferrde shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	20,272,500.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—
<b>IV. Retained earnings</b>	443,368,430.96	341,915,031.97

**STATEMENT OF CASH FLOW**

For the period ended 30 June 2005

**Form 8***Unit: RMB*

Item	Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Cash flows from operating activities</b>		
Cash received from sales of goods or rendering of services	—	—
Refund of tax and levy	—	—
Other cash received relating to operating activities	4,529,614.68	1,096,581.71
<b>Subtotal of cash inflows</b>	<b>4,529,614.68</b>	<b>1,096,581.71</b>
Cash paid for goods or services	—	—
Cash paid and on behalf of employees	2,832,686.50	3,340,245.88
Taxes paid	679,853.83	287,429.38
Other cash paid in relation to operating activities	7,580,451.45	5,160,839.91
<b>Subtotal of cash outflows</b>	<b>11,092,991.78</b>	<b>8,788,515.17</b>
<b>Net cash flows from operating activities</b>	<b>(6,563,377.10)</b>	<b>(7,691,933.46)</b>
<b>II. Cash flows from investing activities</b>		
Cash received from sales of investments	—	36,005,003.52
Including: cash received from sales of subsidiaries	—	—
Cash received from investment income	83,545,010.61	109,813,431.02
Net Cash received from disposal of fixed assets, intangible assets and other long-term assets	250.00	690.00
Other cash received from investing activities	128,457,600.00	51,376,828.19
<b>Subtotal of cash inflows</b>	<b>212,002,860.61</b>	<b>197,195,952.73</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,511,752.00	86,840.00
Cash paid to acquire investments	—	36,895,713.99
Including: cash paid for purchasing subsidiaries	—	26,895,713.99
Other cash paid in relation to investing activities	288,786,764.06	107,270,697.60
<b>Subtotal of cash outflows</b>	<b>291,298,516.06</b>	<b>144,253,251.59</b>
<b>Net cash flows from investing activities</b>	<b>(79,295,655.45)</b>	<b>52,942,701.14</b>
<b>III. Cash flows from financing activities</b>		
Proceeds from acquiring investments	—	—
Proceeds from borrowings	138,000,000.00	—
Other proceeds relating to financing activities	—	—
<b>Subtotal of cash inflows</b>	<b>138,000,000.00</b>	<b>—</b>
Cash repayments of amounts borrowed	51,000,000.00	—
Cash payments for distribution of dividends, profits or interest expenses	311,157.11	13,585,927.75
Other cash payments relating to financing activities	—	25,000,000.00
<b>Subtotal of cash outflows</b>	<b>51,311,157.11</b>	<b>38,585,927.75</b>
<b>Net cash flows from financing activities</b>	<b>86,688,842.89</b>	<b>(38,585,927.75)</b>
<b>IV. Effect of foreign exchange rate charges on cash</b>	<b>—</b>	<b>—</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>829,810.34</b>	<b>6,664,839.93</b>

**STATEMENT OF CASH FLOW (CONTINUED)**

For the period ended 30 June 2005

<b>Supplemental Information</b>	<b>Six months ended 30 June 2005</b>	<b>Form 8 Unit: RMB Six months ended 30 June 2004</b>
<b>I. Reconciliation of net profit to cash flows from operating activities:</b>		
<b>Net profit</b>	<b>114,798,016.18</b>	34,519,772.10
Add: Provision for value impairment of assets	—	—
Depreciation of fixed assets	<b>1,897,890.27</b>	1,735,807.38
Amortization of intangible assets	—	—
Amortization of long-term prepaid expenses	<b>290,052.78</b>	593,123.58
Decrease in prepaid expenses (less: increase)	—	—
Increase in accrued expenses (less: decrease)	<b>(182,094.00)</b>	(1,929,200.00)
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains)	<b>(250.00)</b>	3,342.70
Losses on scrapping of fixed assets	<b>53.00</b>	40,361.08
Financial expenses	<b>309,953.00</b>	—
Losses on investments (less: gains)	<b>(122,720,286.49)</b>	(40,364,992.02)
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	—	—
Decrease in operating receivables (less: increase)	<b>397,738.48</b>	(1,930,994.08)
Increase in operating payables (less: decrease)	<b>(1,354,450.32)</b>	(394,646.87)
Others	—	35,492.67
Net cash flows from operating activities	<b>(6,563,377.10)</b>	(7,691,933.46)
<b>II. Investing and financing activities that do not involve cash receipts or payments:</b>		
Repayment of debts by the transfer of investments	—	—
Convertible bonds due within 1 year	—	—
Fixed assets obtained by financing lease	—	—
<b>III. Net increase in cash and cash equivalents</b>		
Cash at the end of period	<b>202,637,482.84</b>	238,206,883.97
Less: Cash at the beginning of the period	<b>201,807,672.50</b>	231,542,044.04
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of period	—	—
<b>Net increase in cash and cash equivalents</b>	<b>829,810.34</b>	6,664,839.93

**BREAKDOWN OF PROVISION FOR ASSETS'S VALUE IMPAIRMENT**

For the period ended 30 June 2005

**(Supplementary Information of Consolidated Balance Sheet)***Unit: RMB*

Item	Beginning balance	Current increase	Reversal due to recovery of assets value	Current recovery		Sub-total	Closing balance
				Transfer-out due to other reasons			
1. Total provision for bad debts	67,775,217.66	8,679,666.10	—	1,817,476.92	1,817,476.92	74,637,406.84	
Including: Accounts receivable	54,456,273.58	7,372,860.88	—	1,808,340.35	1,808,340.35	60,020,794.11	
Other receivable	13,318,944.08	1,306,805.22	—	9,136.57	9,136.57	14,616,612.73	
2. Total provision for short-term investment	1,190,600.00	6,111,000.00	659,000.00	—	659,000.00	6,642,600.00	
Including: Stock investment	—	—	—	—	—	—	
Debenture investment	675,600.00	4,868,000.00	659,000.00	—	659,000.00	4,884,600.00	
Fund investment	515,000.00	1,243,000.00	—	—	—	1,758,000.00	
3. Total provision for inventories	25,315,519.02	671,151.86	—	11,354,184.58	11,354,184.58	14,632,486.30	
Including: Goods in stock	24,952,828.40	671,151.86	—	11,241,194.71	11,241,194.71	14,382,785.55	
Raw materials	298,752.78	—	—	112,989.87	112,989.87	185,762.91	
4. Total provision for long-term investment	1,613,629.84	—	—	—	—	1,613,629.84	
Including: Long-term equity investment	1,613,629.84	—	—	—	—	1,613,629.84	
Long-term debenture investment	—	—	—	—	—	—	
5. Total provision for fixed assets	25,352,941.92	290,327.63	—	1,263,097.17	1,263,097.17	24,380,172.38	
Including: Houses & buildings	18,150,656.61	—	—	—	—	18,150,656.61	
Machinery equipment	6,332,872.46	290,327.63	—	1,263,097.17	1,263,097.17	5,360,102.92	
6. Provision for intangible assets	966,151.46	—	—	—	—	966,151.46	
Including: Patent	—	—	—	—	—	—	
Trademark	—	—	—	—	—	—	
7. Provision for construction work in progress	130,000.00	468,625.25	—	468,625.25	468,625.25	130,000.00	
8. Provision for loan by trust	—	—	—	—	—	—	
9. Total	122,344,059.90	16,220,770.84	659,000.00	14,903,383.92	15,562,383.92	123,002,446.82	

**STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY**

For the period ended 30 June 2005

(Supplementary Information of Consolidated Balance Sheet)

Unit: RMB

Item	Notes	Six months ended 30 June 2005	Six months ended 30 June 2004
<b>I. Paid-in-stock:</b>			
Beginning balance	VI-30	810,900,000.00	810,900,000.00
Increase in the current period	VI-30	—	—
Decrease in the current period	VI-30	—	—
Ending balance	VI-30	810,900,000.00	810,900,000.00
<b>II. Capital surplus:</b>			
Beginning balance	VI-31	1,126,381,425.35	1,119,572,202.41
Increase in the current period	VI-31	21,452,991.23	1,066,935.10
Including:			
Premium on stock		—	—
Reserve of donated non-cash assets		428,616.92	—
Receipt of cash donation		—	—
Equity investment reserve		19,106,315.70	—
Transfer-in from government appropriation		1,918,058.61	1,066,935.10
Foreign currency capital translation difference		—	—
Other capital surplus		—	—
Decrease in the current period	VI-31	—	—
Including: Recovery of losses		—	—
Ending balance	VI-31	1,147,834,416.58	1,120,639,137.51
<b>III. Statutory and discretionary surplus reserves:</b>			
Beginning balance	VI-32	326,870,323.86	281,987,122.66
Increase in the current period	VI-32	—	—
Including:			
Amount appropriated from net income		—	—
Statutory surplus reserve		—	—
Discretionary surplus reserve		—	—
Discretionary surplus reserve		—	—
Decrease in the current period		6,909,090.60	—
Including:			
Recovery of losses		—	—
Conversion into stock		—	—
Distribution of cash dividend or profit		—	—
Distribution of stock dividend		—	—
Ending balance	VI-32	319,961,233.26	281,987,122.66
Including: Statutory surplus reserve	VI-32	212,597,379.79	193,344,763.64
<b>IV. Statutory public welfare fund:</b>			
Beginning balance	VI-32	153,572,065.40	134,458,560.41
Increase in the current period		—	—
Including: Amount appropriated from net income		—	—
Decrease in the current period	VI-32	3,007,452.46	—
Including: Collective welfare expenditures		—	—
Ending balance	VI-32	150,564,612.94	134,458,560.41
<b>V. Undistributed profit:</b>			
Undistributed profit at the beginning of the period		22,505,890.50	82,558,496.93
Net income (or losses) for the period		103,590,439.23	31,808,644.71
Profit distribution for the period		10,355,956.92	48,654,000.00
Undistributed profit/losses at the ending of the period		115,740,372.81	65,713,141.64

## NOTES TO THE ACCOUNTING STATEMENTS

### I. BASIC CONDITION OF THE COMPANY

Guangzhou Pharmaceutical Company Limited (the “Company”) is a joint stock company with limited liability established initially in this form in the People’s Republic of China pursuant to a reorganization of eight Chinese patent medicine manufacturing entities and three pharmaceutical trading entities formerly under the supervision and control of Guangzhou Pharmaceutical Holdings Limited (the “Holding”) with the capital injection of the state owned equity relating to the operating assets in accordance with the TGS [1997] 139 article issued by the Economic Structure Reform Committee of the State. The Company obtained an enterprise legal person business license with the official code of 4401011101830 on 1 September 1997.

Pursuant to the document with ref. TGS [1997] 145 issued by the Economic Structure Reform Committee of the State and the ZWF [1997] 56 article issued by the Securities Committee of the State Council, the Company issued 219.9 million H shares of stock listed on the Stock Exchange of Hong Kong Limited in October 1997. Approved by the China Securities Regulatory Committee, the Company issued 78 million A shares on 10 January 2001. The total amount of shares of the Company is RMB810,900,000, including RMB513,000,000 shares owned by the State, representing 63.26% of the total shares, and public shares of RMB297,900,000, representing 36.74% of the total shares.

The Company and its subsidiaries (the “Group”) engage in capital management, investment, development, financing, the development and manufacturing of Chinese patent medicine, the manufacturing of biological products, health protection medicines and drinks, and the wholesale, retail and import & export of Chinese patent medicine, western pharmaceutical products and various medical apparatus.

The Group’s current structure includes 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 implements the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises and the supplementary stipulations.

#### 2. Accounting Year

Accounting year of the Group coincides with the calendar year, i.e., from 1 January to 31 December on the Gregorian calendar.

#### 3. Bookkeeping Currency

The Group uses Renminbi (“RMB”) as its bookkeeping currency.

#### 4. Basis of Recording and Valuation

The Group adopts accrual concept as basis of recording and historical cost as basis of valuation.

#### 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 are defined as investments that are short-term, highly liquid, readily convertible to cash of known amount and are subject to a low risk of change in value at the time the Group prepares the statement of cash flows.

## 7. Accounting for Bad Debts

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

Certified standards of bad debts recognition:

- 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.

According to the accrual standards of provision for bad debts approved by the board of directors, the Group provides provision for bad debts based on the aging of receivable balances. In addition, the Group provides special provision for high-risk receivables based on the financial status and solvency of the debtor.

The provision rates are based on the aging of receivable balances as follows:

Aging	Provision rate
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 after deduction of the balance of related party debtors, unreimbursed business disbursements and other current accounts irrelevant to repayment of accounts.

## 8. Inventories

Inventories of the Group include finished goods, goods in stock, work-in-process, raw materials, goods in transit, low-valued consumables and packaging materials.

Inventories are valued based on the perpetual account record and cost of acquisition. Consolidated subsidiaries include manufacturing enterprises and commercial enterprises. The respective basis of valuation is as follows:

### (1) Manufacturing enterprises:

If raw materials and finished products are stated at planned cost, inventories are recorded at planned cost upon daily receipt and dispatch. At the end of the month, the amount of inventories stated at planned cost will be adjusted for price variances borne by them to arrive at the actual cost; if stated at actual cost, inventories are accounted for on a weighted average basis or first-in-first-out basis.

Low-valued consumables and packaging materials are recorded at actual cost and fully amortized upon issuance for use.

### (2) Commercial enterprises:

Inventories of wholesale enterprises are stated at acquisition cost. Cost of commodities issued is accounted for on first-in-first-out basis except for Guangzhou Pharmaceuticals Corporation (weighted average basis is used) and Guangzhou Chinese Medicine Corporation (specific identification basis is used).

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

Inventories are checked at the period-end. 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**

Short-term investments of the Group are recorded at total price on acquisition deducting the cash dividends or interest that have been declared but not received. Cash dividends or interest will 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 will be recognized as an investment income in the current period.

Short-term investments of the Group are measured at the lower of cost and market value. At the period-end, if market value is lower than cost, provision will be made for the difference.

**10. Long-term Equity Investments**

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

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

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

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

**11. Long-term Debenture Investments**

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

Premium or discount is 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 Impairment of Long-term Investments**

Approved by the board of directors, if the carrying amount of a long-term investment is lower than its recoverable amount as a result of continuous decline in market value or deterioration in operating conditions of the investment, and the decline will not be recovered in the foreseeable future, the Group will make the provision for this based on the difference between the recoverable amount and the carrying amount of the long-term investment.

**13. Fixed Assets and Depreciation**

Fixed assets include houses and buildings, motor vehicles, machinery equipment and tools with useful lives over one year and unit cost more than RMB2, 000. Fixed assets are stated at cost and depreciated 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	Useful lives	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 rates and amounts are recomputed based on the book value of assets (i.e., original cost less accumulated depreciation and provision for impairment), and the remaining useful lives; in case the value of the fixed assets with provision is recovered, the depreciation rates and amounts will be recomputed at the new book value and the remaining useful life.

In the event that the fixed assets' recoverable amounts are less than the carrying amount 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

Project cost of construction work in progress is valued at actual cost, and transferred to fixed assets when the work reaches its expected usable condition.

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 benefit flowed to the entities is very uncertain, or with other full elements proving that value of the construction work is impaired, provision will be made for the difference between the carrying amount and the lower recoverable amount.

#### 15. Intangible Assets and Amortization

Intangible assets of the Group, which are mainly land use rights and proprietary technologies, are stated at actual cost and amortized evenly over their expected useful lives commencing from the month in which they are acquired.

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

#### 16. Long-term Deferred Expenses

Long-term deferred expenses are stated at actual cost and amortized evenly over the anticipated beneficial period.

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

#### 17. Accounting for Borrowing Cost

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

The borrowing costs incurred in the acquisition of long-term assets such as fixed assets are capitalized before the relevant assets are ready for their intended use and recognized as current financial expenses thereafter.

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

**18. Recognition of Revenue**

Revenue from sales of goods is recognized when goods are dispatched, the title to the goods and the major risks and rewards are passed to customers and the Group does not execute the right of supervision and control over the goods, payment or payment evidences are obtained, and the cost of goods sold can be measured reliably.

When the provision of services is started and completed within the same accounting year, revenue should be recognized at the time that the services are completed, the total amount of service revenue and costs can be measured reliably, and the economic benefits associated with the transaction will flow to the enterprise. When the provision of services is started and completed in different accounting years and the outcome of the transaction involving the rendering of services can be estimated reliably, revenue should be recognized at the balance sheet date by the use of the percentage of completion method.

**19. Accounting treatment for income tax**

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

**20. Basis of Preparation of Consolidated Financial Statements**

The consolidated financial statements are prepared in accordance with ref. [1995] 11 article Temporary Regulation of Consolidation on Financial Statements and CKEZ [1996] 2 article 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 under control in the consolidation scope and eliminated sufficiently the business activities between the Company and its subsidiaries or between subsidiaries, based on the individual financial statements of the Company and each subsidiary in the consolidation scope.

**III. TAXATION AND OTHER ADDITIONAL TAXES**

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

**1. Circulating tax and other additional taxes**

## 1) Circulating tax

Taxable item	Tax	Rate
Revenue from sale of products	Value-added tax	17%
Revenue from transfer of materials	Value-added tax	17%
Revenue from rendering services	Business tax	5%
Revenue of rental	Business tax	5%
Revenue of capital employed	Business tax	5%
Revenue from sale of wine products	Consumption tax	10%

## 2) City construction tax

The city construction tax is calculated and paid based on 7% of the total amount of circulating tax. Subsidiaries of the Group that 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 that are foreign invested enterprises, are exempted from education surcharge in accordance with PRC regulations.

## 2. Enterprise income tax

The Group calculates and pays enterprise income tax at the rate of 33% in accordance with Temporary Regulation of Enterprise Income Tax in the People's Republic of China.

Pursuant to Enterprise Income Tax Law for Foreign Invested Enterprise in the People's Republic of China, Guangzhou Qixing Pharmaceutical Co., Ltd., a subsidiary of the Group, applies the enterprise income tax rate of 24% and local income tax rate of 3%.

## IV. SUBSIDIARIES AND JOINT VENTURES

### (1) Major subsidiaries and joint control enterprises in the consolidation scope of the consolidated financial statements

Company name	Registered Place	Paid-in share capital RMB'000	Actual investment of the Group to its subsidiaries RMB'000	% of equity interest	Principal Activities
Guangzhou Hanfang Modern Chinese medicine Patent Medicine Research & Development Co., Ltd.	Guangzhou	127,760	93,330	72.96	Research & development of and products of health care
Guangzhou Bio-technology Co., Ltd.	Guangzhou	70,100	66,500	94.87	Research & development of medicine
Guangzhou Huanye Pharmaceutical Co., Ltd.	Guangzhou	6,000	3,580	59.701	Manufacturing chemical material medicine
Guangzhou Xingqun Pharmaceutical Co., Ltd.	Guangzhou	77,170	68,670	88.99	Production of Chinese patent medicine
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	Guangzhou	166,000	161,050	97.016	Production of Chinese patent medicine
Guangzhou Chenliji Pharmaceutical Factory	Guangzhou	94,000	94,000	100	Production of Chinese patent medicine
Guangzhou Qixing Pharmaceutical Factory	Guangzhou	82,420	82,420	100	Production of Chinese patent medicine
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Guangzhou	86,230	76,230	88.4	Production of Chinese patent medicine
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	Guangzhou	65,440	57,440	87.77	Production of Chinese patent medicine
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Guangzhou	204,760	98,380	48.0465	Production of Chinese patent medicine
Guangzhou Pharmaceuticals Corporation	Guangzhou	222,000	215,330	96.9941	Trading of western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation	Guangzhou	69,700	69,700	100	Trading of Chinese patent medicine and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Corporation	Guangzhou	15,000	15,000	100	Import and export of medicine
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	Guangzhou	18,410	3,888.7	51	Trading of Chinese patent medicine and Chinese raw medicine
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Nanning	31,880	21,720	51	Production of Chinese patent medicine

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

The Group holds 72% of equity interest in Shenzhen Qixing Lanzhao Bio-technology Co., Ltd. and 66% of equity interest in Guangzhou Kangshou Pharmaceutical Co., Ltd but does not include them in the consolidation as both of them commenced their liquidation stage in the current period.

The Group holds 51% of equity interest in Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.. As the shares on the total of assets, sales and net profit of this company owned by the Group are under 10% of the total of assets, sales, and net profit of the Group, it is not included in the consolidation in accordance with the document CK2Z(1996)No.2 article Reply to the Quere on Scope of Consolidation and the significance principle of the Group .

(3) **Change in consolidation scope**

In the reporting period, Hong Kong Tongxing Pharmaceutical Co., Ltd. has made increment to Guangzhou Wanglaoji Pharmaceutical Co., Ltd. by RMB168,880,000 according to the signed Warrant to Subscribe, and thus acquired 48.0465% of the equity interest. Such increment has changed the Company's share in Guangzhou Wanglaoji Pharmaceutical Co., Ltd. from 92.48% to 48.0465%. Therefore Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has changed from a holding subsidiary to a joint venture. When preparing the consolidated financial statements, consolidation by proportion instead of full amount is adopted for this investee beginning from the reporting period.

## V. PROFIT DISTRIBUTION

The profit after tax will be distributed in the following order:

- 1) Making up 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 will 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

Item	Closing balance	Beginning balance
Cash on hand	1,325,823.60	1,192,326.45
Cash in bank	785,724,983.22	859,419,351.72
Other cash	4,326,199.71	20,212,919.73
	<u>791,377,006.53</u>	<u>880,824,597.90</u>

1) Breakdown of cash in bank

	Closing balance	Beginning balance
Current deposit	623,150,581.22	715,712,994.49
Fixed deposit	162,574,402.00	143,706,357.23
	<u>785,724,983.22</u>	<u>859,419,351.72</u>

## 2) Breakdown of other cash

Item	Closing balance	Beginning balance
Out-port bank deposit	49,237.61	51,175.67
Bank bill deposit	3,000,000.00	10,165,833.00
Credit card deposit	135,218.31	290,109.98
L/C guaranty deposit	1,120,715.83	4,830,076.94
Other	21,027.96	4,875,724.14
	<u>4,326,199.71</u>	<u>20,212,919.73</u>

3) At the period-end, the Group held deposit of HKD2,335,192.13 (equivalent to RMB2,483,943.87) and USD862.81 (equivalent to RMB7,141.05) in Hong Kong.

## 2. Short-term investments

Item	Closing balance	Write-down provision	Market price at the period-end
Treasury bond	9,752,600.00	4,884,600.00	9,736,000.00
Fund	10,000,000.00	1,758,000.00	8,242,000.00
	<u>19,752,600.00</u>	<u>6,642,600.00</u>	

(1) According to the closing price of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on 30 June 2005, the Group has made short term investment provision for the amount of which the market price is lower than cost.

(2) The closing balance of short-term investment provision increases by 457.92% compared with the beginning balance. The main reason is that the par value of the treasury bonds under trusteeship of Nanfang Security Co., Ltd is 10,000,000 (the booking amount is 9,752,600). It's acknowledged that Nanfang Security Company is declared to go bankruptcy on 29 April 2005. The Company has finished the process of creditor's rights registration. In the Company's opinion, there is certain uncertainty in full recovery of the above-mentioned treasury bills. In this circumstance, the Company has accrued provision at 50% of the market value.

## 3. Notes receivable

	Closing balance	Beginning balance
Bank acceptance bill	149,944,359.60	62,186,822.02
Trade acceptance bill	154,492,860.72	123,022,778.21
	<u>304,437,220.32</u>	<u>185,209,600.23</u>

The closing balance of notes receivable increases by 64.37% than the beginning balance, mainly owing to business scale of the Group enlarges and more bills are used for settlement.

## 4. Dividends receivable

Item	Closing balance	Beginning balance
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	7,380,957.41	—
Nanfang Nanfan Packaging Co., Ltd.	2,983,850.00	—
	<u>10,364,807.41</u>	<u>—</u>

The dividends receivable at the end of the period is increased by RMB10,364,000. The main reasons are:

- (1) Nanhai Nanfan Packaging Co., Ltd. has declared the dividends of 2004 which is not yet paid.
- (2) As the subordinate company Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has become a joint venture of the Company after it received the capital increment, the dividends receivable comes from consolidation by proportion for this company.

## 5. Accounts receivable

## 1) Aging analysis of accounts receivable

Aging	Closing balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	1,242,168,190.96	94.19%	13,126,934.54	1.06%
1~2 years	28,498,805.74	2.16%	5,042,393.67	17.69%
2~3 years	8,073,361.10	0.61%	3,999,300.15	49.54%
3~4 years	13,805,683.94	1.05%	12,191,985.34	88.31%
4~5 years	2,704,499.06	0.21%	2,170,441.43	80.25%
Over 5 years	23,489,738.98	1.78%	23,489,738.98	100.00%
	<u>1,318,740,279.79</u>	<u>100.00%</u>	<u>60,020,794.11</u>	<u>4.55%</u>
Aging	Beginning balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	957,240,209.19	93.65%	9,609,444.44	1.00%
1~2 years	18,333,301.62	1.79%	3,516,319.01	19.18%
2~3 years	16,413,164.55	1.61%	13,273,231.44	80.87%
3~4 years	4,021,203.48	0.39%	2,581,749.92	64.20%
4~5 years	6,774,493.37	0.66%	6,142,185.98	90.67%
Over 5 years	19,333,342.80	1.89%	19,333,342.79	100.00%
	<u>1,022,115,715.01</u>	<u>100.00%</u>	<u>54,456,273.58</u>	<u>5.33%</u>

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

- 2) From the closing balance aforementioned, RMB83,659,060.71 is owed by the top five customers with largest balance, representing 6.34% of the total balance.
- 3) The current 149 reversals of accounts receivable amount to RMB1,689,245.02 and those are involved in related party transactions is RMB10,418.46.
- 4) Accounts receivable aged 3-4 years with a sum of RMB9,638,751.88 is due from Puning Honghai Pharmaceutical Co., Ltd.. As this debtor did not confirm the account, the Group accrued bad debts provision in full amount based on the conservatism principle.

## 6. Other receivables

## 1) Aging analysis of other receivables:

Aging	Balance	Closing balance		Provision Percentage
		Percentage	Bad debt provision	
Within 1 year	56,515,897.82	45.55%	285,896.15	0.51%
1~2 years	18,348,179.16	14.79%	509,502.03	2.78%
2~3 years	21,317,477.31	17.18%	3,553,984.81	16.67%
3~4 years	5,097,208.94	4.11%	837,860.30	16.44%
4~5 years	11,185,058.26	9.02%	1,404,916.00	12.56%
Over 5 years	11,606,305.60	9.35%	8,024,453.44	69.14%
	<u>124,070,127.08</u>	<u>100.00%</u>	<u>14,616,612.73</u>	<u>11.78%</u>

  

Aging	Balance	Beginning balance		Provision Percentage
		Percentage	Bad debt provision	
Within 1 year	64,888,082.69	51.87%	577,190.29	0.89%
1~2 years	31,298,696.04	25.02%	1,870,367.38	5.98%
2~3 years	5,443,619.75	4.35%	1,867,311.67	34.30%
3~4 years	11,711,184.50	9.36%	284.75	0.00%
4~5 years	2,040,251.54	1.63%	1,005,659.02	49.29%
Over 5 years	9,719,192.98	7.77%	7,998,130.97	82.29%
	<u>125,101,027.50</u>	<u>100.00%</u>	<u>13,318,944.08</u>	<u>10.65%</u>

## 2) Closing balance of other receivables:

Item	Closing balance	Beginning balance
Petty cash	2,302,226.23	2,268,239.88
Security money, deposit and down payment	8,670,706.89	4,217,943.36
Prepayment for the project and the equipment	19,535,170.98	11,786,965.97
Advances for operation	17,803,491.65	19,335,088.32
Staff borrowings	574,090.33	245,585.58
Current accounts between related parties	16,307,379.85	23,923,424.79
Others	3,836,726.51	9,100,614.52
Discounts and allowance receivables	12,509,953.59	22,523,950.71
Current account with external company	42,530,381.05	31,699,214.37
	<u>124,070,127.08</u>	<u>125,101,027.50</u>

Among the other receivable accounts, the amount due from shareholder with 5% or more voting shares is that due from the Holding with an amount of RMB5,918,262.50.

- (3) The five largest amounts of other receivables add up to RMB7,424,169.77, accounting for 5.98% of the total.
- (4) The current 80 reversals of other receivables amount to RMB486,418.00 and all are not involved in related party transactions.

**7. Advances to suppliers**

- (1) Among the closing balance, no advance is prepaid to shareholders with 5% or more voting shares.
- (2) The closing advances to suppliers decreases by 49.88% compared with the beginning balance, mainly because the Guangzhou Pharmaceuticals Corporation, subordinate to the Group, decreases its advances for the import of medicine in the current period.

**8. Subsidies receivable**

	Closing balance	Beginning balance
Export tax refundable	<u>2,926,620.31</u>	<u>2,224,155.35</u>

The closing subsidies receivable increases by 31.58% compared with the beginning balance, mainly because the subsidiary company Guangzhou Pharmaceutical Import & Export Corporation has not yet received the current period's export tax refund.

**9. Inventories**

	Closing balances		Beginning balance	
	Balance	Provision	Balance	Provision
Goods in transit	1,412,574.37	—	1,761,969.43	—
Raw materials	87,451,500.70	185,762.91	84,240,197.29	298,752.78
Work-in-process	73,503,643.64	—	79,290,846.85	—
Finished goods	73,272,222.83	63,937.84	95,650,066.82	63,937.84
Low-value Consumables	1,644,482.76	—	1,715,469.16	—
Packaging Materials	39,598,966.90	—	32,304,739.81	—
Consigned goods for process	117,002.29	—	181,754.49	—
Goods in stock	783,554,384.25	14,382,785.55	808,089,816.93	24,952,828.40
Others	2,982,742.79	—	5,414.40	—
	<u>1,063,537,520.53</u>	<u>14,632,486.30</u>	<u>1,103,240,275.18</u>	<u>25,315,519.02</u>

The closing balance of the provision for inventory write-down decreases by 42.20% compared with the beginning balance, mainly because the subsidiary company Guangzhou Chinese Medicine Corporation has scrapped inventory of RMB8,317,000.00, thus the provision for inventory accrued at the end of last year is offset accordingly.

**10. Prepaid expenses**

	Beginning balance	Addition	Amortization	Closing balance
Insurance premium prepaid	1,655,791.47	274,267.56	1,132,757.54	797,301.49
Repair and maintenance of fixes assets	—	600,701.21	177,899.66	422,801.55
Road toll	203,113.98	13,720.00	163,055.38	53,778.60
Advertising	66,000.00	327,180.00	360,180.00	33,000.00
Deductible input VAT	87,387,622.30	229,166,264.26	218,909,036.93	97,644,849.63
Others	522,904.24	2,245,144.12	1,159,647.95	1,608,400.41
	<u>89,835,431.99</u>	<u>232,627,277.15</u>	<u>221,902,577.46</u>	<u>100,560,131.68</u>



## 11. Long-term equity investment

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

Investee	Period	Shareholder percentage	Initial amount of investment
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 Jiuhetang Chinese Medicine Company Limited	2007	32.37%	615,000.00
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	N/A	44.00%	440,000.00
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	N/A	51.00%	255,000.00
Guangzhou Kangshou Pharmaceutical Co., Ltd.	2006	66.00%	2,460,000.00
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	516,930.33
East China Pharmaceutical Co., Ltd.	N/A	13.47%	264,000.00
Guangzhou Lianjie Computer technology Co., Ltd.	N/A	50.00%	250,000.00
Guangzhou Chinese Medicine Corporation			
Beijing Road Chinese Medicine Bazaar	N/A	20.00%	160,000.00
Golden Eagle Asset Management Co.	N/A	20.00%	20,000,000.00
Jihua Medical Apparatus Company Limited	N/A	24.00%	4,200,000.00
Guangzhou Jinshen Pharmaceutical Co., Ltd.	N/A	38.25%	765,000.00
Everbright Bank	N/A	0.30%	10,725,000.00
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 Bio-technology Co., Ltd.	2016	72.00%	3,600,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	2005	40.00%	362,826.38
Bank of Communications Guangdong Branch	N/A		393,841.40

(2) The movements of long-term equity investment in the current period are as follows

Investee	Closing balance	Current fluctuation under equity method	Accumulated fluctuation under equity method	Provision	Note
Indonesia Sanyou Industrial Company Limited	1,078,551.23	—	(443,011.59)	1,078,551.23	[1]
Guangzhou Zhongfu Pharmaceutical Company Limited	1,448,686.30	—	1,048,686.30	—	
Shanghai Jiuhetang Chinese Medicine Company Limited	563,046.60	—	—	—	
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	221,465.11	(47,357.96)	(218,534.89)	—	
Guangzhou Jing Xiu Tang 1790 Trading Co.	255,000.00	—	—	—	
Guangzhou Kangshou Pharmaceutical Co., Ltd.	1,543,932.95	(53,449.85)	(916,067.05)	—	
Ming Tai Industrial (Thailand) Company Limited	285,375.56	—	(231,554.77)	—	
East China Pharmaceutical Co., Ltd.	126,843.02	—	—	—	
Guangzhou Lianjie Computer Technology Co., Ltd.	188,005.46	—	(61,994.54)	—	
Guangzhou Chinese Medicine Corporation					
Beijing Road Chinese Medicine Bazaar	218,399.05	—	58,399.05	—	
Golden Eagle Asset Management Co.	10,885,206.69	(655,337.02)	(9,114,793.31)	—	
Jihua Medical Apparatus Company Limited	2,593,027.37	(285,063.02)	(1,606,972.63)	—	
Guangzhou Jinshen Pharmaceutical Co., Ltd.	263,180.70	(131,306.89)	(501,819.30)	—	
Everbright Bank	10,725,000.00	—	—	—	
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 Bio-technology Co., Ltd.	535,078.61	—	(3,064,921.39)	535,078.61	[2]
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	—	—	—	
Communication Bank Guangdong Branch	393,841.39	—	—	—	
Guangzhou Pangaoshou Natural Health Product Co., Ltd. (Consolidation variance)	1,052,048.42	—	—	—	[3]
Guangzhou Huanye Pharmaceutical Co., Ltd. (Consolidation variance)	744,255.89	—	—	—	[4]
Guangzhou Bio-technology Co., Ltd. (Consolidation variance)	229,579.82	—	—	—	[5]
Fujian Guangyao Jieda Co., Ltd. (Consolidation variance)	532,384.04	—	—	—	[6]
Guangxi Ying Kang Pharmaceutical Co., Ltd. (Consolidation variance)	574,189.38	—	—	—	[7]
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. (Consolidation variance)	790,161.06	—	—	—	[8]
	<u>74,610,085.03</u>	<u>(1,172,514.74)</u>	<u>(15,052,584.12)</u>	<u>1,613,629.84</u>	

- Note 1: The Group hasn't obtained the financial materials of Indonesia Sanyou Industrial Company Limited since the year 1997 and is not aware of the present condition of the investee as a result, provision was made in full amount for this investment on the basis of conservatism principle.
- Note 2: Shenzhen Qixing Lanzao Bio-technology Co., Ltd. has suffered significant losses and it is hard to continue to operate, therefore it began liquidation at the end of 2003. It's estimated that most of the investment can not be recovered, as a result the Group made provision for impairment in full amount for the investment.
- Note 3: Consolidation variance of Guangzhou Pangaoshou Natural Health Product Co., Ltd. amounts to RMB1,052,048.00, representing the amortized balance of the difference between the payments made by Guangzhou Pangaoshou Pharmaceutical Co., Ltd., the subsidiary of the company for purchase of 32% and 15% of equity interest in Guangzhou Pangaoshou Natural Health Product Co., Ltd. in October 1999 and November 2002 respectively and the share of owners' equity acquired. The initial amount of the equity investment difference is RMB1,990,885.94, which is to be amortized evenly from the next month of acquisition over the investment period as stipulated in the contract. The current amortization is RMB80,926.84 and the accumulated amortization is RMB938,837.52.
- Note 4: Consolidation variance of Guangzhou Huanye Pharmaceutical Co., Ltd. amounts to RMB744,255.89, representing the amortized balance of the difference between the total payments for purchase of equity interest and the increment of capital in Guangzhou Huanye Pharmaceutical Co., Ltd. in December 2002 and the attributable share of owners' equity acquired. The difference is amortized evenly from January 2003. The initial amount is RMB992,341.19, current amortization is RMB49,617.06 and the accumulated amortization is RMB248,085.30.
- Note 5: Consolidation variance of Guangzhou Bio-technology Co., Ltd. amounts to RMB229,579.82, representing the amortized balance of difference between the Company's payments for increment of capital in June 2002 and November 2003 respectively and the share of owners' equity acquired in Guangzhou Bio-technology Co., Ltd.. The initial amount is RMB291,355.39. The current amortization is RMB14,567.77 and the accumulated amortization is RMB61,775.57.
- Note 6: Consolidation variance of Fujian Guangyao Jieda Co. Ltd. is RMB532,384.04, representing the amortized balance of difference between the total payments made by Guangzhou Pharmaceutical Corporation, subsidiary of the Company, for purchase of 50% of equity interest in Fujian Guangyao Jieda Co. Ltd. on 14 July 2004 and the attributable share of owners' equity acquired. The initial amount is RMB586,110.87, current amortization is RMB29,305.54 and the accumulated amortization is RMB53,726.83.
- Note 7: Consolidation variance of Guangxi Ying Kang Pharmaceutical Co., Ltd. is RMB574,189.38, representing the amortized balance of difference between the total payments made by the Company on 31 March 2004 for purchase of 51% of equity interest in Guangxi Ying Kang Pharmaceutical Co., Ltd. and the attributable share of owners' equity acquired. The initial amount is RMB656,216.43, current amortization is RMB32,810.82 and the accumulated amortization is RMB82,027.05.
- Note 8: Consolidation variance of Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. is RMB790,161.06, representing the amortized balance of difference between the total payments made by the Company on 27 February 2004 for purchase of 51% of equity interest in Guangzhou Pharmaceutical Yingbang Trading Co. Ltd. and the attributable share of owners' equity acquired. The initial amount is RMB911,724.29, the current amortization is RMB45,586.21 and the accumulated amortization is RMB121,563.23.

## 12. Fixed assets and accumulated depreciation

Cost	Beginning balance	Addition	Decrease	Closing balance
Houses & buildings	1,049,839,391.70	13,809,093.42	42,132,563.90	1,021,515,921.22
Machinery equipment	712,626,964.18	17,405,914.99	34,977,860.75	695,055,018.42
Vehicles	94,426,299.36	3,045,736.72	5,979,084.77	91,492,951.31
Electric equipment	26,847,188.61	911,494.00	64,261.21	27,694,421.40
Office equipment	74,445,069.99	3,449,940.66	3,525,208.74	74,369,801.91
Renovation of fixed assets	22,314,450.57	139,570.22	6,256,048.68	16,197,972.11
	<u>1,980,499,364.41</u>	<u>38,761,750.01</u>	<u>92,935,028.05</u>	<u>1,926,326,086.37</u>
Accumulated depreciation	Beginning balance	Addition	Decrease	Closing balance
Houses & buildings	197,723,386.75	20,986,037.73	9,111,253.20	209,598,171.28
Machinery equipment	273,681,804.54	29,585,081.90	17,014,124.33	286,252,762.11
Vehicles	55,893,534.42	4,200,374.72	4,201,578.81	55,892,330.33
Electric equipment	13,246,711.21	1,101,099.41	61,820.30	14,285,990.32
Office equipment	36,364,737.32	4,760,705.48	2,868,761.39	38,256,681.41
Renovation of fixed assets	6,441,347.88	1,402,280.28	995,534.38	6,848,093.78
	<u>583,351,522.12</u>	<u>62,035,579.52</u>	<u>34,253,072.41</u>	<u>611,134,029.23</u>
Provision for impairment:	Beginning balance	Addition	Decrease	Closing balance
Houses & buildings	18,150,656.61	—	—	18,150,656.61
Machinery equipment	6,332,872.46	—	1,263,097.17	5,069,775.29
Vehicles	177,398.58	—	—	177,398.58
Electric equipment	—	290,327.63	—	290,327.63
Office equipment	8,512.15	—	—	8,512.15
Renovation of fixed assets	683,502.12	—	—	683,502.12
	<u>25,352,941.92</u>	<u>290,327.63</u>	<u>1,263,097.17</u>	<u>24,380,172.38</u>

- (1) During this period, construction work in progress transfers to fixed assets amounted to 15,303,000.
- (2) As at 30 June 2005, the Group has pledged its fixed assets with net book value of 124,913,000 for bank loans.
- (3) At the year-end, the Group provided impairment provision of RMB24,380,000 for the difference whose recoverable amount were lower than the book value owing to their technology obsolescence, damage or long idleness.
- (4) The closing balance of fixed assets decreases by 92,935,000 while accumulated depreciation decreases by 34,253,000 compared with the beginning balance. The main reason is that the Company's subsidiary Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has acquired capital increment from a new shareholder in March 2005, and the Company has changed from a controlling shareholder to the joint control shareholder, consolidation for this investee adopts proportion method thus causes decrease of cost of fixed assets and accumulated depreciation.

### 13. Construction work in progress

(1) Details of construction work 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	80%
Xingqun Manufacture Workshop project at phase 3	16,835,778.76	Working Capital	111%
Zhong Yi relocation of Yunpu workshop	197,030,000.00	Working Capital, loan and government appropriation	102%
Chenlijji product technical alteration	29,100,000.00	Working capital and stock capital	90%
Chenlijji product showroom	4,000,000.00	Working capital	147%
Hanfang Conghua base construction	118,840,000.00	Stock capital and government appropriation	93%
Hanfang equipment installation project	3,786,349.50	Stock capital and government appropriation	100%
Jingxiutang suppository production line	11,339,612.77	Working capital and stock capital	100%
Jingxiutang Zhuifengtouguan production line	30,300,000.00	Working capital and stock capital	99%
Jingxiutang GMP reconstruction project	12,821,045.48	Working capital and loan	36%
Pangaoshou GMP reconstruction project	104,910,000.00	Loan and special fund from public debt	95%
Wanglaoji sewage treatment alteration project	400,000.00	Working capital	127%
Chinese Medicine GMP reconstruction project of Guangzhou Chinese Medicine Corp.	5,000,000.00	Working capital	96%
Baidi equipment A installation	3,000,000.00	Government appropriation	77%
Baidi equipment B installation	8,000,000.00	Working capital	161%
Huanye solid preparation workshop project	4,738,900.00	Working capital	58%
Qixing Warehouse project	6,000,000.00	Working capital	37%
Others	13,979,870.00	Working capital, stock capital and government interest subsidy	—

(2) The movements of construction work in progress in the current period are as follows:

Project	Beginning balance	Addition	Transferred to fixed asset	Other reduction	Closing balance	Closing balance of provision
Relocation of Guangzhou Xingqun Pharmaceutical Company	288,853.15	4,736,996.36	1,054,048.00	—	3,971,801.51	—
Xingqun Manufacture Workshop project at phase 3	3,952,497.79	34,000.00	—	—	3,986,497.79	—
Xingqun comprehensive workshop building phase 1 and 2	—	1,674,119.59	—	—	1,674,119.59	—
Zhong Yi relocation of Yunpu workshop	836,849.63	5,963,019.23	—	1,722,849.05	5,077,019.81	—
Chenlijji product technical alteration	773,473.64	1,392,832.17	969,188.54	292,056.10	905,061.17	—
Chenlijji product showroom	83,561.00	126,871.84	106,471.06	—	103,961.78	—
Hanfang Conghua base construction	89,747,009.74	19,125,174.92	—	—	108,872,184.66	—
Hanfang equipment installation project	318,444.00	—	298,044.00	—	20,400.00	—
Jingxiutang prepayment for equipment	2,343,821.21	2,404,347.85	1,284,936.24	—	3,463,232.82	—
Jingxiutang suppository production line	1,690,000.00	—	1,690,000.00	—	—	—
Jingxiutang Zhuifengtouguan production line	647,400.00	—	—	647,400.00	—	—
Jingxiutang GMP reconstruction project	1,210,000.00	2,273,984.32	1,171,606.28	—	2,312,378.04	—
Jingxiutang sewage treatment pool	558,281.00	—	558,281.00	—	—	—
Jingxiutang other projects	698,861.23	—	498,861.23	—	200,000.00	—
Pangaoshou GMP reconstruction project	2,572,916.00	2,002,358.28	3,309,222.30	—	1,266,051.98	—
Wanglaoji Manufacture CMP Workshop project	—	1,323,725.32	1,323,725.32	—	—	—
Wanglaoji sewage treatment alteration project	—	508,488.00	508,488.00	—	—	—
Chinese medicine GMP reconstruction project of Guangzhou Chinese Medicine Corp.	458,325.55	1,233,248.19	62,737.26	—	1,628,836.48	—
Baidi equipment A installation	2,303,100.00	—	—	—	2,303,100.00	—
Baidi equipment B installation	4,327,672.64	4,188,956.40	29,117.62	—	8,487,511.42	—
Baidi frozen dry powder linkage line	—	614,550.00	—	—	614,550.00	—
Huanye solid preparation workshop project in development zone	1,252,800.20	100,000.00	—	—	1,352,800.20	—
Yinkang GMP reconstruction project	645,990.00	—	645,990.00	—	—	—
Qixing warehouse project	2,202,351.19	—	—	—	2,202,351.19	—
Others	2,862,867.13	1,967,818.66	1,792,160.87	655,420.79	2,383,104.13	130,000.00
	<u>119,775,075.10</u>	<u>49,670,491.13</u>	<u>15,302,877.72</u>	<u>2,670,325.94</u>	<u>151,472,362.57</u>	<u>130,000.00</u>

**The Closing balance of provision for impairment of construction work in progress is 130,000.00 (beginning balance: 130,000.00)**

**As the project of Jingxiutang Anbike equipment installation is suspended for a long time and will not restart in the foreseeable future, the Group has provided a provision of 50,000.00 for it in the beginning of period. Together with the provision for impairment of Zhong Yi dust removing project with an amount of 80,000.00 provided in the previous years, the closing balance of provision is 130,000.00.**

## 14. Intangible assets

(1) Details of intangible assets are as follows:

Items	Acquisition method	Cost	Remaining amortization period (No. of month)	Provision for Impairment
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	486	—
Land use right of Renmin Road factory	Purchase	2,686,602.00	486	—
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,618,067.38	456	—
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3 of Zhongshanba Road	Purchase	1,465,822.00	181	—
Land use right of Guangzhou Yunpu Industry District	Purchase	2,255,182.58	565	—
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	515	—
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	507	—
Land use right of Songgang Factory	Purchase	20,417,970.00	462	—
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	451	—
Land use right of Panyu Dongsha Development District	Purchase	15,947,019.00	486	—
Land use right of Jiangcun factory in Guangzhou Baiyun District	Purchase	1,916,553.13	504	—
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	Purchase	3,509,041.00	385	—
Land use right of No. 136-138 of He Ping West Road	Purchase	1,535,744.00	385	—
Land use right of No.328 in Beijing Road	Purchase	1,306,988.00	84	—
Land use right of No.103 of Da Tong Road	Land appraisal appreciation	17,928,863.00	385	—
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	Purchase	5,052,929.55	47	—
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	485	—
Land use right of No.85 of Shang Jiu Road	Purchase	2,735,793.33	414	—
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	503	—
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	Investment	1,755,288.00	522	—
Land use right of No. 5 of Panyu Dongsheng Factory	Purchase	3,078,097.91	462	—
Trademark of Guangzhou Pharmaceutical	Investment	3,807,722.31	109	—
Malotilate emulsion technology	Purchase	1,500,000.00	99	—
Marketing network and trademark of Hubei Ankang Co.	Investment	1,200,000.00	105	—
Others		10,731,779.48	14~642	966,151.46
		<u>142,649,927.57</u>		<u>966,151.46</u>

The closing balance of the provisions for impairment is 966,151.46 accrued at the difference of the carrying amount and the lower recoverable amount (beginning balance: 966,151.46).

(2) The movements of intangible assets in the current period are as below:

Project	Beginning balance	Current addition	Current decrease	Current amortization	Accumulated amortization	Closing balance
Land use right of Nanzhou Road factory	3,698,500.63	—	—	44,188.83	646,734.20	3,654,311.80
Land use right of Renmin Road factory	2,255,927.58	—	—	27,414.31	458,088.73	2,228,513.27
Land use right of No.19-29 of Ningxiheng Street	1,339,654.36	—	—	17,212.15	295,625.17	1,322,442.21
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3 of Zhongshanba Road	1,133,132.00	—	—	34,332.00	367,022.00	1,098,800.00
Land use right of Guangzhou Yunpu Industry District	2,208,763.73	—	—	23,209.43	69,628.28	2,185,554.30
Land use right of No. 194 of Beijing Road	2,056,645.53	—	—	23,625.81	329,561.36	2,033,019.72
Land use right of No. 1688 of Southern Guangzhou Avenue	23,045,268.40	—	—	270,061.74	4,230,967.26	22,775,206.66
Land use right of Songgang Factory	1,731,006.97	—	—	22,192.38	18,709,155.41	1,708,814.59
Land use right of Nanhai Huangqi	3,146,996.42	—	—	41,317.26	984,320.84	3,105,679.16
Land use right of Panyu Dongsha Development District	13,413,987.62	—	—	159,470.19	2,692,501.57	13,254,517.43
Land use right of Jiangcun factory in Guangzhou Baiyun District	3,012,218.73	—	1,546,538.87	35,437.86	486,311.13	1,430,242.00
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	3,090,168.75	—	—	47,419.50	466,291.75	3,042,749.25
Land use right of No. 136-138 of He Ping West Road	1,352,423.36	—	—	20,753.28	204,073.92	1,331,670.08
Land use right of No.328 in Beijing Road	1,067,373.68	—	—	16,337.34	255,951.66	1,051,036.34
Land use right of No.103 of Da Tong Road	14,296,865.36	—	—	247,636.20	3,879,633.84	14,049,229.16
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	4,463,421.12	—	—	505,292.94	1,094,801.37	3,958,128.18
Land use right of B area of Xin Zhou Warehouse	2,222,527.54	—	—	21,241.80	474,855.26	2,201,285.74
Land use right of No.85 of Shang Jiu Road	2,380,132.74	—	—	33,038.46	388,699.05	2,347,094.28
Land use right of No.12 of Fangcun Sai Ba Road	1,498,240.99	—	—	17,645.22	283,927.13	1,480,595.77
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	1,544,653.44	—	—	—	210,634.56	1,544,653.44
Land use right of No. 5 land of Panyu Dongsha Industrial zone	2,206,637.90	—	—	30,390.60	901,850.61	2,176,247.30
Trademark of Guangzhou Pharmaceutical	3,649,067.21	—	—	190,386.12	349,041.22	3,458,681.09
Malotilate emulsion technology	1,312,500.00	—	—	75,000.00	262,500.00	1,237,500.00
Marketing network and trademark of Hubei Ankang Co.	1,110,000.00	—	—	60,000.00	150,000.00	1,050,000.00
Others	7,075,367.15	574,985.00	—	342,799.10	3,424,226.43	7,307,553.05
	<u>104,311,481.21</u>	<u>574,985.00</u>	<u>1,546,538.87</u>	<u>2,306,402.52</u>	<u>41,616,402.75</u>	<u>101,033,524.82</u>

In the current period intangible assets decreases by 1,547,000, the reason is that Guangzhou Wanglaoji Pharmaceutical Co., Ltd. accepts incremental capital from a new shareholder in March 2005. As a result, the Company changes from a controlling shareholder to a joint control shareholder, and consolidation for this investee is made by proportion.

**15. Long-term prepaid expenses**

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

Item	Amortization period	Cost	Remaining amortization period
Renovation Expenditures for improvement of leased fixed assets	5 years	34,957,960.83	1 to 5 years
Installation of telephone	5 years	344,205.77	1 to 5 years
Maintenance expenditure on fixed assets	5 years	2,756,400.00	6 months
Computer system	5 years	7,162,070.45	6 months
GMP project improvement	5 years	6,134,246.25	1 to 5 years
ERP system	5 years	1,551,248.00	Nil
Medical fund for retired staff	5 years	2,138,381.76	1 to 5 years
Transitional medical fund for retired staff	5 years	2,414,500.00	1 to 2.5 years
Others	10 years	3,049,676.46	7 years and 2 months
	2-5 years	4,605,726.96	1 to 5 years
		<u>65,114,416.48</u>	

(2) The movements of long-term prepaid expenses during the current period are as below:

Item	Beginning Balance	Current Addition	Current Amortization	Accumulated Amortization	Closing Balance
Renovation expenses	12,567,927.51	140,208.07	2,946,287.69	25,196,112.94	9,761,847.89
Expenditures for improvement of leased fixed assets	—	344,205.77	28,683.80	28,683.80	315,521.97
Installation of telephone	59,059.30	—	23,449.98	2,720,790.68	35,609.32
Maintenance expenditure on fixed assets	688,834.40	—	—	6,473,236.05	688,834.40
Computer system	646,737.57	307,480.00	456,151.47	5,636,180.15	498,066.10
GMP project improvement	169,201.06	—	169,201.06	1,551,248.00	—
ERP system	1,224,036.86	182,285.80	217,065.67	949,124.77	1,189,256.99
Medical fund for retired staff	497,775.01	—	214,495.98	2,131,220.97	283,279.03
Transitional medical fund for retired staff	2,341,903.90	—	169,243.26	877,015.82	2,172,660.64
Others	1,020,352.03	1,823,768.60	600,360.58	2,361,966.91	2,243,760.05
	<u>19,215,827.64</u>	<u>2,797,948.24</u>	<u>4,824,939.49</u>	<u>47,925,580.09</u>	<u>17,188,836.39</u>

**16. Short-term loans**

	Closing balance	Beginning balance
Loan by credit	45,586,020.00	25,000,000.00
Loan by mortgage and pledge	236,471,141.23	255,958,830.03
Loan by guaranty	624,000,000.00	656,500,000.00
	<u>906,057,161.23</u>	<u>937,458,830.03</u>

**17. Notes payable**

	Closing balance	Beginning balance
Bank acceptance bill	29,721,583.12	118,321,134.12
Trade acceptance bill	—	18,731,700.00
	<u>29,721,583.12</u>	<u>137,052,834.12</u>

The closing balance of notes payable decreases by 78.31% compared with the beginning balance, mainly because that at the end of period bills used for settlement are reduced.

**18. Accounts payable**

Of the closing balance, no account is due to shareholders with 5% or more voting shares.

**19. Advances from customers**

- (1) Within the closing balance, no advance is paid to shareholders with 5% or more voting shares.
- (2) The closing balance of advances from customers increases by 33.08% compared with the beginning balance, mainly owing to the increase in agency category of pharmaceutical trading enterprises and customers are required to make prepayment before delivery.

**20. Accrued Payroll**

The closing balance of accrued payroll increases by 71.36% compared with the beginning balance, mainly because that the bonus accrued in the first half of year has not yet paid.

**21. Dividend payable**

Name of shareholder	Closing balance	Beginning balance
Dividend to state shares	12,825,000.00	—
Dividend to domestic public shares	1,949,999.87	—
Dividend to minor shareholders	5,522,276.22	25,980.20
Dividend to overseas public shares	6,705,748.58	402.84
	<u>27,003,024.67</u>	<u>26,383.04</u>

The closing balance was increased by a large scale comparing with the beginning balance, representing the unpaid declared dividends of the year 2004 during the reporting period; the said dividends had been paid in July 2005.

**22. Taxes payable**

	Closing balance	Beginning balance
Business tax	280,162.28	796,463.34
Value added tax	14,426,314.72	(14,616,004.43)
City construction tax	1,231,215.39	924,123.73
Enterprise income tax	23,758,123.88	34,683,091.24
Property tax	1,343,559.40	329,787.24
Withholding tax	622,672.85	179,472.81
Others	—	1,744,310.13
	<u>41,662,048.52</u>	<u>24,041,244.06</u>

The closing balance of taxes payable increases by 73.29% compared with the beginning balance. The main reason is that sales from principal operation grow and the value added tax input is greater than output.



**23. Other liabilities**

	<i>Note</i>	<b>Closing Balance</b>	<b>Beginning Balance</b>
Education surcharge	(1)	532,324.02	414,328.26
Flood prevention levy	(2)	2,948,084.98	2,460,718.34
Others		5,817.28	5,346.34
		<u>3,486,226.28</u>	<u>2,880,392.94</u>

(1) Education surcharge is paid at 3% of the payable amount of VAT, business tax and consumption tax.

(2) Flood prevention levy is paid at 0.05% of taxable revenue (on VAT, business tax, consumption tax and resources tax) for commercial enterprises, 0.09% for foreign invested enterprises, and 0.13% for other enterprises.

**24. Other payables**

(1) Break down for closing balance of other payables

<b>Item</b>	<b>Closing balance</b>	<b>Beginning balance</b>
Security money, deposit and down payment	12,660,920.35	18,950,775.59
Technology improvement	1,414,966.99	1,235,485.85
Rental	487,443.19	—
Labor union fund	980,765.46	1,102,973.38
Staff education fund	11,600,656.02	10,924,318.13
Current accounts to external companies	48,204,812.64	36,085,243.34
Tax addition and government levies	3,767,611.27	334,210.29
Advance from staff	4,354,816.02	1,311,990.10
Labor insurance	1,139,854.91	913,448.63
Monetary subsidies of staff housing	15,397,595.55	10,399,116.96
Staff bonus and welfare fund	1,538,416.51	1,179,049.39
Payables to Guangzhou Pharmaceutical Holdings Limited	25,257,024.47	27,428,199.47
Payables to Bank of Communications		
Guangzhou Branch (Collected on behalf)	42,037,352.60	122,438,765.67
Centralization fund	9,802,792.37	10,500,071.25
Operator incentive fund	5,255,332.30	2,328,249.35
Estimated payment for fixed assets	14,505,094.21	12,560,604.18
Others	9,724,147.68	7,879,956.21
	<u>208,129,602.54</u>	<u>265,572,457.79</u>

(2) Among the closing balance, the amount payable to the shareholder who holds 5% or more voting shares is payable to the Holding RMB25,257,024.47.

**25. Accrued expenses**

<b>Item</b>	<b>Closing balance</b>	<b>Beginning balance</b>
Interest on loan	2,507,565.67	1,242,290.73
Rental	2,050,035.18	1,548,786.28
Audit fees	1,967,906.00	2,150,000.00
Maintenance cost of flood control work	202,100.71	—
Advertising expenses	15,446,145.72	1,802,639.86
Transportation cost	480,160.47	533,009.96
Water and electricity expense	300,043.21	—
Sales terminal fee	4,537,491.20	—
Meeting expense	1,088,500.00	—
Others	2,309,536.27	1,954,555.37
	<u>30,889,484.43</u>	<u>9,231,282.20</u>

The closing balance of accrued expenses increase by 234.62% compared with the beginning balance, mainly because the accrued advertising expenses and sale terminal expenses grow in the current period.

**26. Long-term liabilities due within one year**

	Closing balance	Beginning balance
Loan by credit	40,000,000.00	20,000,000.00
Loan by guaranty	59,500,000.00	27,680,000.00
	<u>99,500,000.00</u>	<u>47,680,000.00</u>

The closing balance of long-term liabilities due within one year increases by 108.68% compared with the beginning balance, mainly owing to the long-term loans that will due within one year at the end of period is transferred to this account.

**27. Long-term loans**

Lender	Period	Annual Interest rate	Closing balance	Condition
ICBC Guangzhou No. 1 Sub-branch	2004.7.8~2006.7.7	4.94%	10,000,000.00	Credit
ICBC Guangzhou No. 1 Sub-branch	2004.8.5~2006.8.4	4.94%	20,000,000.00	Credit
			<u>30,000,000.00</u>	

The closing balance of long-term loans reduces by 72.6% compared with the beginning balance, mainly because those will due within one year at the end of period is transferred to the account of long-term liabilities due within one year.

**28. Long-term payables**

Creditor	Content	Closing balance	Beginning balance
Guangzhou Finance Bureau	State dividends	2,149,157.22	2,170,889.13
Finance Department of Guangxi Chuang Municipality	Payable for equity interest transfer	2,264,426.47	2,264,426.47
Others		281,412.43	584,696.78
		<u>4,694,996.12</u>	<u>5,020,012.56</u>

**29. Special payable**

Content	Closing balance	Beginning balance
Government appropriation as science and technology fund	38,041,923.82	25,968,096.13
Interest subsidies of government	6,234,463.78	6,556,318.78
Special fund for technology export	635,622.00	645,757.00
GMP relocation project-draining project	—	640,000.00
	<u>44,912,009.60</u>	<u>33,810,171.91</u>

The closing balance of special payable increases by 32.84% compared with the beginning balance, mainly owing to Guangzhou HanFang Modern Chinese Patent Medicine Research & Development Co., Ltd. which is subordinate to the Group receives a fund of 15,000,000 appropriated from government for the modernization project of Chinese traditional medicine's separation and distillation.

**30. Share Capital**

	Beginning balance	Addition	Reduction	Closing balance
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
Total	<u>810,900,000.00</u>	<u>—</u>	<u>—</u>	<u>810,900,000.00</u>

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

**31. Capital Surplus**

	Beginning balance	Addition	Reduction	Closing balance
Share premium	914,006,770.47	—	—	914,006,770.47
Provision for donation in the form of non-cash	2,164,769.48	428,616.90	—	2,593,386.40
Receipt of cash donation	—	—	—	—
Reserve of equity investment	215,256.10	19,106,315.70	—	19,321,571.80
Transfer from appropriation	17,869,114.37	1,918,058.61	—	19,787,172.98
Other capital surplus	191,751,621.84	—	—	191,751,621.84
Exchange gain on foreign currency capital	373,893.09	—	—	373,893.09
	<u>1,126,381,425.35</u>	<u>21,452,991.21</u>	<u>—</u>	<u>1,147,834,416.58</u>

Reasons for change in capital surplus in the current period are as follows:

- (1) Guangzhou Wanglaoji Pharmaceutical Co., Ltd., a subordinate company of the Group, increases its capital in March 2005. The surplus on contribution from the new shareholder is recorded as capital surplus, and the Group shares 19,106,000 according to the proportion of the equity interest.
- (2) The Group increases its capital surplus as a result of receipt of donation of non-cash assets with an amount of 429,000.
- (3) Upon the completion of research and development projects, the governmental appropriation 1,918,000 is transferred from special obligation to capital surplus.

**32. Surplus reserve**

	Beginning balance	Addition	Reduction	Closing balance
Statutory surplus reserve	216,051,925.08	—	3,454,545.29	212,597,379.79
Statutory public welfare fund	153,572,065.40	—	3,007,452.46	150,564,612.94
Discretionary surplus reserve	105,844,905.71	—	3,454,545.31	102,390,360.40
Transfer from tax exemption	4,973,493.07	—	—	4,973,493.07
	<u>480,442,389.26</u>	<u>—</u>	<u>9,916,543.06</u>	<u>470,525,846.20</u>

The reduction of surplus reserve mainly because:

In March 2005 Guangzhou Wanglaoji Pharmaceutical Co., Ltd., subordinate to the Company, increases its capital by receipt of a new shareholder's contribution. The Company becomes a joint control shareholder from a controlling shareholder. Consolidation for this investee adopts proportion method thus the surplus reserve decreases.

**33. Sale**

	<b>Current cumulated</b>	<b>Last cumulated</b>
(1) Manufacturing and selling	<u>1,140,258,775.85</u>	982,388,785.16
(2) Trading		
Wholesale	<b>3,208,995,655.80</b>	2,788,060,798.42
Retail	<b>148,734,546.90</b>	123,158,245.37
Import & export sales	<b>98,183,032.72</b>	97,086,330.17
	<u>3,455,913,235.42</u>	3,008,305,373.96
	<u><b>4,596,172,011.27</b></u>	<u>3,990,694,132.12</u>

The total sales from the top five customers is RMB444,719,000, representing 9.68% of the total net sales.

**34. Cost of sale**

	<b>Current cumulated</b>	<b>Last cumulated</b>
(1) Manufacturing and selling	<u>532,579,333.25</u>	457,111,438.30
(2) Trading		
Wholesale	<b>3,039,556,296.54</b>	2,627,346,061.40
Retail	<b>118,009,308.20</b>	96,585,893.43
Import & export sales	<b>90,967,295.97</b>	91,222,734.56
	<u>3,248,532,900.71</u>	2,815,154,689.39
	<u><b>3,781,112,233.96</b></u>	<u>3,272,266,127.69</u>

**35. Sales tax and levies**

<b>Item</b>	<b>Current cumulated</b>	<b>Last cumulated</b>
Business tax	<b>198,321.44</b>	306,338.49
City construction tax	<b>9,344,875.89</b>	9,347,901.40
Education surcharge	<b>4,033,764.44</b>	4,017,040.02
Others	<b>24,217.83</b>	23,019.60
	<u><b>13,601,179.60</b></u>	<u>13,694,299.51</u>

**36. Profit from other operations**

<b>Item</b>	<b>Current cumulated</b>	<b>Last cumulated</b>
(1) Income from other operations		
Lease of Assets	<b>18,756,840.18</b>	15,931,695.49
Sales of material	<b>514,870.67</b>	1,209,729.70
Management fee of member stores	<b>165,958.00</b>	86,000.00
Royalties of trademark	<b>662,515.09</b>	55,950.00
Consultancy income	<b>2,188,906.44</b>	2,677,270.40
Others	<b>2,741,485.42</b>	2,480,412.72
	<u>25,030,575.80</u>	22,441,058.31
(2) Cost of other operations		
Lease of Assets	<b>552,627.88</b>	2,158,176.22
Sales of material	<b>666,007.61</b>	724,883.15
Tax and sur-tax	<b>2,506,736.81</b>	353,083.58
Others	<b>263,615.95</b>	816,763.08
	<u>3,988,988.25</u>	4,052,906.03
Profit from other operations	<u><b>21,041,587.55</b></u>	<u>18,388,152.28</u>

**37. Financial expenses**

Item	Current cumulated	Last cumulated
Net interest expenses	22,922,254.84	16,562,238.26
Net exchange losses	59,030.24	34,849.88
Financial institution charges	1,839,716.52	1,081,742.63
Others	1,605.59	6,150.00
	<u>24,822,607.19</u>	<u>17,684,980.77</u>

The financial expenses in the current period increase by 40.36% compared with those of the corresponding period of last year, the main reasons are:

- (1) The average short-term loans of the Group in the current period increased comparing with that of the corresponding period of last year, the related interest expenses increased as a result.
- (2) The financial institution charges increased owing to more financing from discounting notes receivable and transferring accounts receivable.

**38. Investment income**

Item	Current cumulated	Last cumulated
Net increase or decrease of stock investment under equity method	(1,425,328.97)	(2,078,403.21)
Net increase or decrease of stock investment under cost method	2,984,370.92	391,450.95
Debenture investment	(83,086.32)	(610,416.07)
Stock investment	—	2,279,227.83
Provision for impairment of investment	(5,452,000.00)	(759,300.00)
	<u>(3,976,044.37)</u>	<u>(777,440.50)</u>

The current investment income reduces by 411.43% compared with those of the corresponding period of last year, mainly because:

Provision of RMB4,868,000 has been provided for impairment of the treasure bonds under trusteeship of Nanfang Security Co., Ltd. Please refer to Point 2 of VI "Short-term investments". Notes to Consolidated Financial Statements

**39. Non-operating income**

Items	Current cumulated	Last cumulated
Net profit from disposal of fixed assets	158,840.30	21,200.00
Sales of obsolete material	106,603.88	73,176.21
Fine	25,022.95	17,767.52
MTR removal compensation	166,443.86	3,429,361.88
Dormitory rental from staff	28,712.76	—
Others	162,532.78	746,565.71
	<u>648,156.53</u>	<u>4,288,071.32</u>

The current non-operating income decreases by 84.88% compared with those of the corresponding period of last year, mainly due to shrinkage of 3,263,000 of income from compensation for dismantling obtained by Guangzhou Chinese Medicine Corporation, a subsidiary of the Company.

**40. Non-operating expenses**

	Current cumulated	Last cumulated
Net loss on disposal of fixed assets	500,745.34	2,057,280.22
Provision for impairment of fixed assets	758,952.88	—
Donation	724,241.17	397,032.41
Fine	388,722.83	3,217,606.20
Abnormal loss	253,848.72	—
Flood prevention levy	—	2,527,536.19
Family control bonus	402,084.16	370,134.70
Others	29,503.49	217,850.23
	<u>3,058,098.59</u>	<u>8,787,439.95</u>

The current non-operating expenses decreases by 65.20% compared with those of the corresponding period of last year, mainly due to the Company's reclassification of flood prevention levy originally recorded in non-operating expenses into general & administration expenses in the current period.

**41. Extraordinary gain or loss**

	<i>Unit: RMB'000</i>
	<b>Current cumulated</b>
Gain or loss on disposal of fixed assets	(341.91)
Government subsidies	189.52
Gain or loss from short-term investment	(6,111.00)
Other non-operating income, expenses than provision for assets impairment	(1,309.08)
Reversal of provision for impairment accrued in previous years	659.00
Impact of income tax	(177.55)
Impact of minority interest	(273.08)
	<u>(6,462.84)</u>

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

<b>Main item</b>	<i>Unit: RMB'000</i>
Interest income	5,399
Consultancy and promotion income	2,188
Rental income	18,757
Income from financial appropriate fund	<u>16,186</u>

**43. Other cash paid relating to other operating activities**

<b>Main item</b>	<i>Unit: RMB'000</i>
Operating expenses paid in cash	141,288
General & administration expenses paid in cash	117,811
Non-operating expenses	1,142
Charges of financial institutions	<u>1,840</u>

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

### 1. Other receivables

Aging analysis of other receivable as at 30 June 2005

Aging	Balance	Closing balance		
		Proportion to the total	Bad debts Provision	Accrual Proportion
Within 1 year	85,645,601.03	31.08%	—	—
1~2 years	11,242,829.97	4.08%	—	—
2~3 years	24,238,005.49	8.80%	—	—
3~4 years	81,774,301.97	29.68%	—	—
4~5 years	22,251,915.76	8.08%	—	—
Over 5 years	50,402,043.54	18.29%	502,043.54	1.00%
	<u>275,554,697.76</u>	<u>100.00%</u>	<u>502,043.54</u>	<u>0.18%</u>
Aging	Balance	Beginning balance		
		Proportion to the total	Bad debts Provision	Accrual Proportion
Within 1 year	139,737,149.34	40.42%	—	—
1~2 years	17,043,976.42	4.93%	—	—
2~3 years	24,238,005.49	7.01%	—	—
3~4 years	82,050,301.97	23.73%	—	—
4~5 years	22,267,515.76	6.44%	—	—
Over 5 years	60,402,843.54	17.47%	502,043.54	0.83%
	<u>345,739,792.52</u>	<u>100%</u>	<u>502,043.54</u>	<u>0.15%</u>

Within the aforesaid balance, receivables due from shareholders holding 5% or more voting shares include the receivable from the Holding with an amount of RMB4,620,000.00

### 2. Long-term equity investments

Name of investee	Original investment	Stock proportion to the investee	Accumulated increase (decrease) of the equity	Closing balance
Guangzhou Xingqun Pharmaceutical Co., Ltd.	125,322,318.71	88.99%	57,408,164.67	182,730,483.38
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	156,209,321.79	90.36%	168,452,057.29	324,661,379.08
Guangzhou Chenliji Pharmaceutical Factory	98,465,344.60	100.00%	95,637,267.24	194,102,611.84
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	89,480,000.00	70.04%	(14,956,734.29)	74,523,265.71
Guangzhou Qixing Pharmaceutical Factory	126,775,482.62	100.00%	45,210,331.70	171,985,814.32
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,814.94	88.40%	(11,084,631.11)	90,405,183.83
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	144,298,132.51	87.77%	17,720,805.40	162,018,937.91
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	102,035,124.44	48.0465%	56,498,643.43	158,533,767.87
Guangzhou Pharmaceuticals Corporation	230,189,155.53	90.09%	144,230,702.56	374,419,858.09
Guangzhou Chinese Medicine Corporation	69,051,978.34	100.00%	(60,242,508.88)	8,809,469.46
Guangzhou Pharmaceutical Import & Export Corporation	17,957,328.73	100.00%	2,451,942.24	20,409,270.97
Guangzhou Bio-Technology Co., Ltd.	66,500,000.00	94.86%	(17,445,321.89)	49,054,678.11
Guangzhou Huanye Pharmaceutical Co., Ltd.	15,331,246.76	59.70%	(179,205.50)	15,152,041.26
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	3,888,713.99	51.00%	225,102.81	4,113,816.80
Guangxi Ying Kang Pharmaceutical Co., Ltd.	21,717,000.00	51.00%	(3,575,247.94)	18,141,752.06
Golden Eagle Asset Management Co.	20,000,000.00	20.00%	(9,114,793.31)	10,885,206.69
Jihua Medical Apparatus Company Limited	4,200,000.00	24.00%	(1,606,972.63)	2,593,027.37
Guangzhou Jinshen Pharmaceutical Co., Ltd.	765,000.00	38.25%	(501,819.30)	263,180.70
Everbright Bank	10,725,000.00	0.30%	—	10,725,000.00
Guoyao Group Industry Corporation	8,000,000.00	10.00%	—	8,000,000.00
Nanhai Nanfang Packing Company Limited	30,000,000.00	21.42%	—	30,000,000.00
Total	<u>1,442,400,962.96</u>		<u>469,127,782.49</u>	<u>1,911,528,745.45</u>

## 3. Investment income

	Current cumulated	Last cumulated
Stock investment	—	2,279,227.83
Bond investment	<b>1,362,353.61</b>	(610,416.07)
Profit from associate enterprises or joint-ventures	<b>2,983,850.00</b>	—
Net increase or decrease of equity investment under equity method	<b>123,826,082.88</b>	39,455,480.26
Provision for impairment of investment	<b>(5,452,000.00)</b>	(759,300.00)
	<b><u>122,720,286.49</u></b>	<b><u>40,364,992.02</u></b>

## VIII. RELATED PARTY RELATIONSHIPS &amp; TRANSACTIONS

## (1) Related parties with control relationship

Company Name	Registered address	Principal business	Relationship with the Company	Economic nature and type	Legal representative
Guangzhou Pharmaceutical Holdings Company Limited	No. 45, Shamian North Street, Guangzhou	Production and sales	Holding	Company with limited liabilities	Yang Rongming
Guangzhou Xingqun Pharmaceutical Co., Ltd.	No. 162, Nanzhou Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Su Guangfeng
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	West Building of 11F, No. 28, Times Square, Tianhe North, Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	Mai Qijie
Guangzhou Chenliji Pharmaceutical Factory	No. 1688, Guangzhou Avenue South, Guangzhou	Production and sales	Subsidiary	Controlled by the State	Li Guoju
Guangzhou Qixing Pharmaceutical Factory	No. 33, Chigang North Street, Xingang Central Road, Guangzhou	Production and sales	Subsidiary	Controlled by the State	Wen Xianwen
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	No. 179, Renmin South Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Yan Zhibiao
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	No. 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	Joint venture	Joint stock company with limited liabilities	Li Zuze
Guangzhou Pharmaceuticals Corporation	No.97, Datong Road, Guangzhou	Wholesale and retail	Subsidiary	Company with limited liability	Feng Zansheng
Guangzhou Chinese Medicine Corporation	No. 140, Guangfu South Road, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Xie Bin
Guangzhou Pharmaceutical Import & Export Corporation	No. 59, Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Tu Kejin
Guangzhou Huanye Pharmaceutical Co., Ltd.	No. 195, Fangcun Avenue East, Fangcun District, Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	Feng Jinglin
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	No. 134, Jiangnan Avenue Central, Haizhu District, Guangzhou	Wholesale & retail, research & development	Subsidiary	Company with limited liabilities	Chen Zhinong
Guangzhou Bio-Technology Co., Ltd.	Shiguang Roadside, Xiecun Village, Zhongcun Town, Panyu District, Guangzhou	Wholesale & retail, research & development	Subsidiary	Company with limited liabilities	Chen Jiannong
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	Back building of 59 Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	Company with limited liability	He Shuhua
Guangxi Ying Kang Pharmaceutical Co., Ltd.	No. 195, Changgang Road, Nanning, Guangxi	Production and sales	Subsidiary	Company with limited liability	He Shuhua



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

*Unit: RMB'000*

Company name	Beginning balance	Addition	Reduction	Closing balance
Guangzhou Pharmaceutical Holdings Limited	1,007,700	—	—	1,007,700
Guangzhou Xingqun Pharmaceutical Co., Ltd.	77,170	—	—	77,170
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	—	—	160,000
Guangzhou Chenliji Pharmaceutical Factory	94,000	—	—	94,000
Guangzhou Qixing Pharmaceutical Factory	82,420	—	—	82,420
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	86,230	—	—	86,230
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	65,440	—	—	65,440
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	106,380	98,380	—	204,760
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.	127,760	—	—	127,760
Guangzhou Bio-Technology Co., Ltd.	70,100	—	—	70,100
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	18,410	—	—	18,410
Guangxi Ying Kang Pharmaceutical Co., Ltd.	31,880	—	—	31,880

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

*Unit: RMB'000*

Company name	Beginning Balance		Addition		Reduction		Closing balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Guangzhou Pharmaceutical Holdings Company Limited	491,000	60.55	—	—	—	—	491,000	60.55
Guangzhou Xingqun Pharmaceutical Co., Ltd.	68,668	88.99	—	—	—	—	68,668	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	82,416	100	—	—	—	—	82,416	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	76,232	88.40	—	—	—	—	76,232	88.40
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	57,436	87.77	—	—	—	—	57,436	87.77
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	98,378	92.48	—	—	—	44.4335	98,378	46.0465
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.	3,582	59.70	—	—	—	—	3,582	59.70
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	89,480	70.04	—	—	—	—	89,480	70.04
Guangzhou Bio-Technology Co., Ltd.	66,500	94.87	—	—	—	—	66,500	94.87
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	9,388	51.00	—	—	—	—	9,388	51.00
Guangxi Ying Kang Pharmaceutical Co., Ltd.	16,261	51.00	—	—	—	—	16,261	51.00

## (4) Related party transactions

## (i) Nature of related parties with no control relationship

Company Name	Relationship with the Company
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Mingxing Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Tianxin Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Hejigong Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Guanghua Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou South-China Medical Appliance Co., Ltd.	Fellow subsidiary
Guangzhou Guangyao Real Estate Industry Co., Ltd.	Fellow subsidiary
Baolian Development Company Limited	Fellow subsidiary
Guangzhou Zhongfu Medical Company Limited	Joint venture
Guangzhou Medical Industry Research Center	Fellow subsidiary
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	Fellow subsidiary
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary
Guangzhou Baiyunshan Chemistry Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan Enterprise Group Co., Ltd.	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Pharmaceutical Economic Development Company	Fellow subsidiary
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Joint venture

In March 2005 Guangzhou Wanglaoji Pharmaceutical Co., Ltd. increases its capital by receipt of a new shareholder's contribution, so the Company becomes a joint-control shareholder from a controlling shareholder. The related transactions with this company shown below belong to other shareholders of Wanlaoji.

## (ii) Purchase of goods

Company name	Current cumulated	<i>Unit: RMB'000</i>
		Last cumulated
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	16,403	16,438
Guangzhou Mingxing Pharmaceutical Co., Ltd.	19,467	15,826
Guangzhou Tianxin Pharmaceutical Company Limited	18,686	4,562
Guangzhou Hejigong Pharmaceutical Co., Ltd.	4,193	1,870
Guangzhou Guanghua Pharmaceutical Company Limited	34,871	16,189
Guangzhou South-China Medical Appliance Co., Ltd.	11	—
Guangzhou Pharmaceutical Goods and Supply Company	59	620
Baolian Development Company Limited	54,141	3,130
Guangzhou Zhongfu Medical Company Limited	2,432	67
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	20,532	757
Guangzhou Baiyunshan Pharmaceutical Factory	25,935	186
Guangzhou Baiyunshan Chemistry Medicine Factory	429	—
Guangzhou Baiyunshan External Use Medicine Factory	1,339	1,305
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	12,514	—
	<b>211,012</b>	<b>60,950</b>

The above purchases are settled at market prices.

## (iii) Sales of goods

Company name	Current cumulated	<i>Unit: RMB'000</i>
		Last cumulated
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	23,764	20,674
Guangzhou Mingxing Pharmaceutical Co., Ltd.	5,144	393
Guangzhou Tianxin Pharmaceutical Company Limited	10,763	8,659
Guangzhou Hejigong Pharmaceutical Co., Ltd.	732	732
Guangzhou Guanghua Pharmaceutical Company Limited	22,277	1,567
Guangzhou Pharmaceutical Goods and Supply Company	—	13
Guangzhou Medical Industry Research Center	5	—
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	9,592	514
Guangzhou Baiyunshan Pharmaceutical Factory	11,050	5,196
Guangzhou Baiyunshan Chemistry Medicine Factory	13,620	—
Guangzhou Baiyunshan External Use Medicine Factory	1,898	1,035
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	6,170	—
	<b>105,015</b>	<b>38,784</b>

The above sales are settled at market prices.

## (iv) Receivables and payables

	Closing balance	Beginning balance
	<i>Unit: RMB'000</i>	
<b>Accounts receivable:</b>		
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	17,498	17,232
Guangzhou Mingxing Pharmaceutical Co., Ltd.	2,102	739
Guangzhou Tianxin Pharmaceutical Company Limited	3,436	5,481
Guangzhou Hejigong Pharmaceutical Co., Ltd.	262	432
Guangzhou Guanghua Pharmaceutical Company Limited	2,026	1,573
Guangzhou Medical Industry Research Center	2	—
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	4,325	1,154
Guangzhou Baiyunshan Pharmaceutical Factory	2,559	1,753
Guangzhou Baiyunshan Chemistry Medicine Factory	4,040	423
Guangzhou Baiyunshan External Use Medicine Factory	845	—
<b>Accounts payable:</b>		
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	1,504	240
Guangzhou Mingxing Pharmaceutical Co., Ltd.	2,969	274
Guangzhou Tianxin Pharmaceutical Company Limited	654	(87)
Guangzhou Hejigong Pharmaceutical Co., Ltd.	779	106
Guangzhou Guanghua Pharmaceutical Company Limited	1,075	394
Guangzhou SouthChina Medical Appliance Co., Ltd.	13	—
Guangzhou Pharmaceutical Goods and Supply Company	20	—
Baolian Development Company Limited	39,961	20,201
Guangzhou Zhongfu Medical Company Limited	—	42
Guangzhou Baiyunshan HW Chinese Medicine Co., Ltd.	2,077	621
Guangzhou Baiyunshan Pharmaceutical Factory	87	202
Guangzhou Baiyunshan Chemistry Medicine Factory	502	—
Guangzhou Baiyunshan External Use Medicine Factory	179	70
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	1,204	—
<b>Other receivables:</b>		
Guangzhou Pharmaceutical Holdings Company Limited	5,918	6,312
Guangzhou Hejigong Pharmaceutical Co., Ltd.	6	25
Guangzhou Nanhua Medical Equipment Co., Ltd.	100	100
Baolian Development Company Limited	5,828	14,854
<b>Other payables:</b>		
Guangzhou Pharmaceutical Holdings Company Limited	25,257	27,428
Guangzhou Pharmaceutical Goods and Supply Company	1,724	1,724
Guangzhou Zhongfu Medical Company Limited	207	207
Guangzhou Baiyunshan Pharmaceutical Factory	101	101
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	83	—

## (v) Receipt of services

Item	Note	<i>Unit: RMB'000</i>	
		Current cumulated	Last cumulated
Service fee on staff housing	[1]	129	135
Comprehensive service fee	[2]	431	450
		<u>560</u>	<u>585</u>

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

Note[2] Pursuant to the Composite Services Agreement entered into by the Company and the Holding on 1 September 1997, the Holding agreed to provide certain welfare facilities to the Group. The Company agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to the Holding's total depreciation charges of the welfare facilities in the year ended December 31 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Service Agreement will expire on December 31 2007.

(vi) Rental

Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and the Holding on 1 September 1997, the Holding granted to the Company the right to use certain premises as warehouses and offices, in which the term of the Office Tenancy Agreement was 3 years, the agreement has been renewed when expired, the rental was paid at a fixed annual amount which were subject to the adjustment of standard rental as prescribed from time to time by Guangzhou Real Estate Administration Bureau; the tenancy agreements for other properties will expire on 1 September 2007 at rentals which were determined by the utilities and other outgoings which were payable based on the actual consumption.

Pursuant to the Office Tenancy Agreement entered into by the Company and the Holding on 6 February 2004, the Company rented the back tower of the Holding's building at No. 45 Shamian North Street from 1 January 2003 at a fixed annual rent which was subject to the adjustment of standard rental as prescribed from time to time by Guangzhou Real Estate Administration Bureau, the term will be expired until the rental prepayment is fully offset.

The Company shall pay such rental charges of RMB1,642,000 for the current period (for the corresponding period of last year: RMB1,453,000).

(vii) License fee

Pursuant to the Trademark License Agreement entered into by the Company and the Holding on 1 September 1997, the Holding granted the Company an exclusive right to use 38 trademarks owned by the Holding for a term of 10 years commencing at the signature date. The Company agreed to pay license fees for the use of the trademarks at 0.1% of its aggregate net sales. The Trademark License Agreement will expire on 1 September 2007. The Company shall pay the above License fee of RMB5,848,000 for the current period (for the corresponding period of last year: RMB4,310,000).

(viii) Prepaid rental

Pursuant to the Premises Agreement entered into by the Company and the Holding on 28 August 1998, the Holding agreed to grant the Company the right to use certain units of its new office building. The rent paid by the Company was determined by reference to a 38% discount on the market rent when the formal tenancy agreement was signed. As the Holding required funds for constructing the new office building, the Company made an advance payment of RMB6,000,000 to the Holding during the year as agreed in the aforementioned agreement. The Holding has consented to use the advance payment exclusively for the construction of the new office building and offset the rental for the premises owed by the Company. The term will be expired until the advance payment is fully offset. The Company has prepaid such rental charges of RMB4,620,000 as at 30 June 2005.

**IX. CONTINGENT EVENTS****1. The Group**

- (1) Up to 30 June 2005, there are no guaranties for external companies.  
 (2) Discount of bank acceptance bills

Up to 30 June 2005, the Group has discounted on promissory bank acceptance bills for RMB2,439,000.

**2. The Company**

As at 30 June 2005, the Company has provided guaranties for the following subsidiaries:

Company guaranteed	Guaranty content	Amount	<i>Unit: RMB'000</i> Period
Guangzhou Pharmaceuticals Corporation	Loan of current fund	305,000	1 year
Guangzhou Pharmaceuticals Corporation	Loan of current fund	110,000	Half a year
Guangzhou Chinese Medicine Corporation	Loan of current fund	91,000	1 year
Guangzhou Pharmaceutical Import & Export Corporation	Loan of current fund	10,000	1 year
Total		<u>516,000</u>	

**X. COMMITMENTS**

Up to 30 June 2005, capital commitments but not yet incurred are as follows:

	<b>Current cumulated</b>	<i>Unit: RMB'000</i> Beginning Balance
Contracted but not provided for	26,466	24,836
Authorised but not contracted for	<u>8,091</u>	<u>50,689</u>

**XI. NON-ADJUSTING EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Up to the current reporting period, there are no important non-adjusting events occurring after the balance sheet date in the Group.

**XII. DEBT RESTRUCTURING EVENTS**

During the current reporting period, there are no debt restructuring events in the Group.

**XIII. NON-MONETARY TRANSACTIONS**

During the current reporting period, there are no material non-monetary transactions in the Group.

#### XIV. ANALYSIS OF DATA MOVEMENT OF ACCOUNTING STATEMENTS

At 30 June 2005 and December 31 2004, the accounts in the comparative consolidated balance sheet whose amounts move by more than 30% and evenly such amount represents more than 5% of the net assets of the Group as at 30 June 2005, and the accounts in the consolidated income statement whose amounts move by more than 30% and evenly such amount represents more than 10% of total profit of the Group for the period from January to June 2005 are listed as follows:

Item	As at 30 June 2005	As at 31 December 2004	Unit: RMB'000 Movement of difference	
			Amount	Range of movement (%)
Accounts receivable (1)	1,258,719	967,659	291,060	30.08
Notes receivable (2)	304,437	185,210	119,228	64.37

Item	For the six months ended 30 June 2005	For the six months ended 30 June 2004	Movement of difference	
			Amount	Range of movement (%)
Financial expenses (3)	24,823	17,685	7,138	40.36

- (1) The closing balance of accounts receivable increases by 30.08% than the beginning balance, mainly because sales from principal operations of the Group grow, the purchase bid of hospital medicine expands, and the credit term of goods payment extends.
- (2) The closing balance of notes receivable increases by 64.37% than the beginning balance, mainly owing to business scale of the Group enlarges and more bills are used for settlement.
- (3) The current financial expenses increase by 40.36% compared with that of the corresponding period of last year. The main reason is:
  - (i) The average short-term loans of the Group in the current period increased comparing with that of the corresponding period of last year, the related interest expenses increased as a result.
  - (ii) The financial institution charges increased owing to more financing from discounting notes receivable and transferring accounts receivable.

#### XV. RECONCILIATION OF 2005 INTERIM NET ASSETS AND RESULTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HKFRS

	Notes	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Audited) RMB'000
Net assets under PRC Accounting Standards and Systems		2,545,001	2,440,230
Intangible assets capitalised	1	42,548	48,125
Difference arising from fixed assets revaluation	2	126,202	130,833
Deferred government grants income	3	(4,619)	(3,243)
Provision for employee benefits in medical insurance	4	(56,599)	(61,306)
Provision for deferred taxation	5	11,242	5,981
Difference in minority interests	6	(13,603)	(15,028)
Impairment on goodwill	7	(1,897)	—
Net assets under HKFRS		<u>2,648,275</u>	<u>2,545,592</u>

	<i>Notes</i>	<b>For the six months ended 30 June 2005 (Unaudited) RMB'000</b>	For the Six months ended 30 June 2004 (Unaudited) RMB'000
Net profit under PRC Accounting Standards and Systems		<b>103,590</b>	31,809
Amortisation of intangible assets	1	<b>(5,180)</b>	(5,223)
Additional depreciation on revalued fixed assets	2	<b>(988)</b>	(988)
Government grants recognised as income	3	<b>297</b>	1,100
Provision for employee benefits in medical insurance	4	<b>2,985</b>	2,738
Deferred taxation, net impact	5	<b>5,262</b>	7,449
Negative goodwill arising from the additional investment of an external investor into a subsidiary	8	<b>19,819</b>	—
Impairment on goodwill	7	<b>(1,897)</b>	—
Difference in minority interests	6	<b>(932)</b>	(2,809)
Profit attributable to equity holders of the Company under HKFRS		<b><u>122,956</u></b>	<b><u>34,076</u></b>

*Notes:*

- 1) This is an amortisation of staff quarter reform costs incurred by the Company and its subsidiaries (collectively the "Group") in 2000 in relation to purchases of staff quarters by its employees. Under Hong Kong Financial Reporting Standards, such costs are recognised as an intangible asset and are subject to amortisation on a straight-line basis over a period of 10 years to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC Accounting Standards and Systems, the staff quarter reform costs were written off against retained earnings of the year in which they were incurred.
- 2) The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing the Company's H shares. The revaluation has been reflected in the accounts of the Group prepared under Hong Kong Financial Reporting Standards but not in the accounts prepared under PRC Accounting Standards and Systems. Accordingly, the depreciation charge under Hong Kong Financial Reporting Standards is higher than that calculated under PRC Accounting Standards and Systems as the depreciation charge under Hong Kong Financial Reporting Standards is based on the revalued amount of fixed assets.
- 3) Government subsidies allocated for fixed assets are recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, government subsidies are recognised as deferred income and credited to the estimated income statement on a straight line basis in accordance with the estimated useful lives of the assets.
- 4) On 1 December 2001, the Group has participated 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 issued 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 recognised as expenses in prior years under Hong Kong Financial Reporting Standards. 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 under Hong Kong Financial Reporting Standards.
- 5) The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, 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) Owing to the above adjustments, there is a difference in net profit/profit attributable to equity holders of the Company prepared under PRC Accounting Standards and Systems and Hong Kong Financial Reporting Standards. This results in a difference in the minority interests.
- 7) Goodwill is amortised using the straight-line method under PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, any impairment on goodwill is accounted for in the income statement on a yearly basis.
- 8) Equity in a subsidiary of the Company was diluted due to the issue of new shares to a third party by such subsidiary. Surplus arising from such transaction is recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, it is accounted for in the income statement.



**FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH HONG KONG ACCOUNTING STANDARD 34 “INTERIM FINANCIAL REPORTING” ISSUED BY THE HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (UNAUDITED)**

**CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

FOR THE SIX MONTHS ENDED 30 JUNE 2005

(All amounts in RMB thousands unless otherwise stated)

**CONDENSED CONSOLIDATED BALANCE SHEET**

ASSETS	Note	As at	
		30 June 2005 Unaudited	31 December 2004 Restated
<b>Non-current assets</b>			
Property, plant and equipment	5	1,398,695	1,487,674
Construction in progress	5	140,216	108,519
Investment properties	5	8,712	8,712
Land use rights	5	131,754	133,364
Intangible assets	5	49,588	57,546
Interests in associates		5,595	6,066
Deferred income tax assets		54,512	49,155
Available-for-sale financial assets	7	64,208	—
Investment securities	8	—	64,863
		<b>1,853,280</b>	<b>1,915,899</b>
<b>Current assets</b>			
Inventories		1,048,904	1,077,959
Trade and other receivables	9	1,867,190	1,518,633
Financial assets at fair value through profit or loss	10	13,110	—
Trading securities	11	—	18,562
Cash and cash equivalents		792,913	882,385
		<b>3,722,117</b>	<b>3,497,539</b>
<b>Total assets</b>		<b>5,575,397</b>	<b>5,413,438</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	12	810,900	810,900
Other reserves	13	1,671,097	1,661,561
Retained earnings		—	20,273
-Proposed final dividend		—	—
-Others		166,278	52,858
		<b>2,648,275</b>	<b>2,545,592</b>
<b>Minority interests</b>		<b>197,182</b>	<b>212,287</b>
<b>Total equity</b>		<b>2,845,457</b>	<b>2,757,879</b>

LIABILITIES	Note	As at	
		30 June 2005 <i>Unaudited</i>	31 December 2004 <i>Restated</i>
<b>Non-current liabilities</b>			
Borrowings	15	30,000	109,500
Deferred income tax liabilities		43,270	43,174
Employee benefits		74,545	52,852
		<u>147,815</u>	<u>205,526</u>
<b>Current liabilities</b>			
Trade and other payables	14	1,552,810	1,430,214
Current income tax liabilities		23,758	34,680
Borrowings	15	1,005,557	985,139
		<u>2,582,125</u>	<u>2,450,033</u>
<b>Total liabilities</b>		<u>2,729,940</u>	<u>2,655,559</u>
<b>Total equity and liabilities</b>		<u>5,575,397</u>	<u>5,413,438</u>
<b>Net current assets</b>		<u>1,139,992</u>	<u>1,047,506</u>
<b>Total assets less current liabilities</b>		<u>2,993,272</u>	<u>2,963,405</u>

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June	
		2005	2004
Turnover	4	4,596,172	3,990,729
Cost of goods sold	17	(3,781,112)	(3,272,460)
<b>Gross profit</b>		<b>815,060</b>	718,269
Other revenues	16	45,665	30,358
Distribution costs	17	(315,040)	(292,353)
Administrative and other operating expenses	17	(329,446)	(344,983)
<b>Operating profit</b>		<b>216,239</b>	111,291
Finance costs	18	(30,216)	(22,482)
<b>Operating profit after finance costs</b>		<b>186,023</b>	88,809
Share of losses of associates		(416)	(239)
<b>Profit before income tax</b>		<b>185,607</b>	88,570
Income tax expense	19	(54,743)	(45,488)
<b>Profit for the period</b>		<b>130,864</b>	43,082
<b>Attributable to:</b>			
Equity holders of the Company		122,956	34,076
Minority interests		7,908	9,006
		<b>130,864</b>	43,082
<b>Earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in RMB per share)			
— basic and diluted	20	<b>0.152</b>	0.042
<b>Dividend</b>	21	<b>20,273</b>	48,654

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited				Total
		Attributable to equity holders of the Company			Minority Interests	
		Share capital	Other reserves	Retained earnings		
<b>Balance at 1 January 2004,</b> as previously reported as equity		810,900	1,595,169	145,348	—	2,551,417
<b>Balance at 1 January 2004,</b> as previously separately reported as minority interests		—	—	—	212,287	212,287
<b>Balance at 1 January 2004,</b> as restated		810,900	1,595,169	145,348	212,287	2,763,704
Profit for the six months ended 30 June 2004		—	—	34,076	9,006	43,082
Dividend relating to 2003	21	—	—	(48,654)	(10,455)	(59,109)
Transfer		—	405	(405)	—	—
<b>Balance at 30 June 2004</b>		<u>810,900</u>	<u>1,595,574</u>	<u>130,365</u>	<u>210,838</u>	<u>2,747,677</u>
<b>Balance at 1 January 2005,</b> as previously reported as equity		810,900	1,661,561	73,131	—	2,545,592
<b>Balance at 1 January 2005,</b> as previously separately reported as minority interests		—	—	—	212,287	212,287
<b>Balance at 1 January 2005,</b> as restated		810,900	1,661,561	73,131	212,287	2,757,879
Profit for the six months ended 30 June 2005		—	—	122,956	7,908	130,864
Dividend relating to 2004	21	—	—	(20,273)	(9,198)	(29,471)
Transfer						
— Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution) (Note 6)		—	9,902	(9,902)	(13,815)	(13,815)
— Others		—	(366)	366	—	—
<b>Balance at 30 June 2005</b>		<u>810,900</u>	<u>1,671,097</u>	<u>166,278</u>	<u>197,182</u>	<u>2,845,457</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2005	2004
Net cash generated from operating activities	<u>113,508</u>	<u>126,797</u>
Net cash used in investing activities	<u>(68,799)</u>	<u>(117,296)</u>
Net cash (outflow)/inflow from financing activities	<u>(134,181)</u>	<u>34,671</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(89,472)</b>	<b>44,172</b>
Cash and cash equivalents at 1 January	<u>882,385</u>	<u>816,889</u>
<b>Cash and cash equivalents at 30 June</b>	<b><u>792,913</u></b>	<b><u>861,061</u></b>
<b>Analysis of balances of cash and cash equivalents</b>		
Bank balances and cash	<u>792,913</u>	<u>861,061</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 1 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (July 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

### 2 Changes in accounting policies

#### (a) Effect of adopting new HKFRS

In 2005, the Group adopted the new / revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28 and 33 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights were accounted for at cost less accumulated amortisation and accumulated impairment.

The Group adopted the proportionate consolidation under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for by the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over a period ranging from 5 to 15 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3(Note 2.6):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for Investments in Securities” to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between Statements of Standard Accounting Practice 24 and HKAS 39 are determined and recognised at 1 January 2005.
- HKAS 40 - since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.
- HKFRS 3 - prospectively after the adoption date.

(i) **The adoption of revised HKAS 17 resulted in:**

	As at	
	30 June 2005	31 December 2004
Decrease in property, plant and equipment	131,754	133,364
Increase in land use rights	<u>131,754</u>	<u>133,364</u>

(ii) **The adoption of revised HKAS 31 resulted in:**

	As at	
	30 June 2005	31 December 2004
Decrease in interests in jointly controlled entities	161,059	—
Increase in other non-current assets	52,340	—
Increase in current assets	144,580	—
Increase in non-current liabilities	2,532	—
Increase in current liabilities	<u>33,329</u>	<u>—</u>

	For the year ended 31 December 2004	For the six months ended 30 June 2005	For the six months ended 30 June 2004
	Decrease in share of profits of jointly controlled entities	—	20,227
Increase in income	—	149,335	—
Increase in expenses	<u>—</u>	<u>129,108</u>	<u>—</u>

(iii) **The adoption of HKFRS 3 and HKAS 38 resulted in:**

	As at 30 June 2005
	Increase in intangible assets
Increase in retained earnings	<u>108</u>
	<b>For the six months ended 30 June 2005</b>
Decrease in administrative expenses	108
Increase in basic and diluted earnings per share (expressed in RMB)	<u>0.0001</u>



**(iv) The adoption of HKAS 39 resulted in:**

	<b>As at 30 June 2005</b>
Increase in available-for-sales financial assets	64,863
Decrease in investment securities	64,863
Increase in financial assets at fair value through profit and loss	13,110
Decrease in trading securities	<u>13,110</u>

There was no impact on basic and diluted earnings per share from the adoption of HKASs 17, 31, 39 and 40.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKASs 17, 31, 38, 39 and 40 and HKFRS 3.

No early adoption of the following new Interpretation that has been issued but is not yet effective. The adoption of such Interpretation will not result in substantial changes to the Group's accounting policies.

HKFRS-Int 4 Determining whether an Arrangement Contains a Lease

**(b) New accounting policies**

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 1 to the 2004 annual financial statements except for the following:

**2.1 Acquisition of subsidiaries and associates**

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of identifiable net assets acquired, the difference is recognised directly in the income statement.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made based on their fair values at the date of acquisition.

**2.2 Joint ventures**

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

### 2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### 2.4 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### 2.5 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location, condition and usage of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Separate values are not attributed to land and buildings. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

## 2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate / jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## 2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units").

## 2.8 Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and trading securities.

### (a) Investment securities

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

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

### (b) Trading securities

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

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from equity and recognised in the income statement.

## 2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

## 2.10 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 2.12 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US dollars") and Hong Kong dollars ("HK dollars"). The Group's businesses are principally conducted in Renminbi ("RMB"), except for import and export of western pharmaceutical products that are mainly conducted in US dollars and HK dollars. Dividends to shareholders holding H Shares are declared in RMB and paid in HK dollars. As at 30 June 2005, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB23,257,000 (2004: approximately RMB35,999,000), trade and other receivables of approximately RMB17,647,000 (2004: approximately RMB15,183,000) and trade and other payables of approximately RMB45,930,000 (2004: approximately RMB27,572,000) were denominated in US dollars and HK dollars. Foreign exchange risk arises from such future commercial transactions, recognised assets and liabilities and declared dividends could affect the Group's results of operations.

##### (ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss.

#### (b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities.

#### (d) Cash flow and fair value interest-rate risk

The Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from its borrowings, details of which have been disclosed in Note 15. All of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

### 3.2 Fair value estimation

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

## 4 Segment information

Primary reporting format - business segments

At 30 June 2005, 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; and
- Import and export of western pharmaceutical products, CPM and medical apparatus.

Turnover consists of sales of goods from the above business segments, which are RMB4,596,172,000 and RMB3,990,729,000 for the six months ended 30 June 2005 and 2004 respectively.

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

The segment results are as follows:

	Six months ended 30 June 2004					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
Total gross segment turnover	1,010,037	2,889,233	126,300	97,086	(131,927)	3,990,729
Inter-segment turnover	27,613	101,172	3,142	—	(131,927)	—
Turnover	982,424	2,788,061	123,158	97,086	—	3,990,729
Segment results	122,244	12,321	(4,440)	2,529	(14,179)	118,475
Unallocated cost						(7,184)
Operating profit						111,291
Finance costs						(22,482)
Share of losses of associates						(239)
Profit before income tax						88,570
Income tax expense						(45,488)
Profit for the period						<u>43,082</u>

	Six months ended 30 June 2005					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
Total gross segment turnover	1,171,231	3,559,375	148,758	107,203	(390,395)	4,596,172
Inter-segment turnover	30,972	350,379	23	9,021	(390,395)	—
Turnover	1,140,259	3,208,996	148,735	98,182	—	4,596,172
Segment results	162,567	62,757	2,368	279	(20,626)	207,345
Unallocated profit						8,894
Operating profit						216,239
Finance costs						(30,216)
Share of losses of associates						(416)
Profit before income tax						185,607
Income tax expense						(54,743)
Profit for the period						<u>130,864</u>

Other segment terms included in the income statement are as follows:

	Six months ended 30 June 2004					
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
Depreciation	42,300	10,948	1,181	95	1,735	56,259
Amortisation	4,941	2,003	—	15	—	6,959
Impairment losses recognised in the income statement	—	—	—	—	—	—
Reversal of impairment losses recognised in the income statement	(101)	—	—	—	—	(101)
	<u>(101)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(101)</u>
	Six months ended 30 June 2005					
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
Depreciation	48,677	10,048	1,504	85	2,188	62,502
Amortisation	5,150	2,003	—	15	—	7,168
Impairment losses recognised in the income statement	507	1,497	—	—	—	2,004
Reversal of impairment losses recognised in the income statement	(412)	(561)	—	—	—	(973)
	<u>(412)</u>	<u>(561)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(973)</u>

Unallocated costs represent corporate expenses.

The segment assets and liabilities at 31 December 2004 and capital expenditure for the six months then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Elimination	Unallocated	Group
Assets	2,562,404	2,368,736	162,165	103,114	(338,484)	549,437	5,407,372
Associates	6,066	—	—	—	—	—	6,066
<b>Total assets</b>	<b>2,568,470</b>	<b>2,368,736</b>	<b>162,165</b>	<b>103,114</b>	<b>(338,484)</b>	<b>549,437</b>	<b>5,413,438</b>
<b>Liabilities</b>	<b>766,297</b>	<b>2,018,186</b>	<b>69,252</b>	<b>69,194</b>	<b>(338,484)</b>	<b>71,114</b>	<b>2,655,559</b>
<b>Capital expenditure</b>	<b>65,724</b>	<b>61,011</b>	<b>—</b>	<b>11</b>	<b>—</b>	<b>91</b>	<b>126,837</b>

The segment assets and liabilities at 30 June 2005 and capital expenditure for the six months then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Elimination	Unallocated	Group
Assets	2,472,386	2,352,884	162,209	108,177	(254,336)	728,482	5,569,802
Associates	5,595	—	—	—	—	—	5,595
<b>Total assets</b>	<b>2,477,981</b>	<b>2,352,884</b>	<b>162,209</b>	<b>108,177</b>	<b>(254,336)</b>	<b>728,482</b>	<b>5,575,397</b>
<b>Liabilities</b>	<b>498,746</b>	<b>2,174,609</b>	<b>71,560</b>	<b>68,417</b>	<b>(254,336)</b>	<b>170,944</b>	<b>2,729,940</b>
<b>Capital expenditure</b>	<b>58,603</b>	<b>9,909</b>	<b>—</b>	<b>8</b>	<b>—</b>	<b>180</b>	<b>68,700</b>

Segment assets consist primarily of land use rights (or prepaid operating lease payments), property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investment properties and other investments.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to land use rights, property, plant and equipment, construction in progress and intangible assets, including additions resulting from acquisitions through business combinations.

No geographical segments are presented as turnover and results attributable to the markets outside the People's Republic of China (the "PRC") are not more than 10% of the Group's consolidated turnover and consolidated results.



## 5 Capital expenditure

	Goodwill	Patent and trademarks	Staff quarters reform costs	Total intangible assets	Investment properties	Property, plant and equipment and construction in progress	Land use rights
Opening net book amount as at 1 January 2005	2,004	7,417	48,125	57,546	8,712	1,596,193	133,364
Movement arising from the change in status of a subsidiary to a jointly controlled entity (Note 6)	—	—	—	—	—	(53,505)	—
Additions	—	—	—	—	—	68,700	—
Disposals	—	—	(396)	(396)	—	(10,948)	—
Depreciation / amortisation change (Note 17)	—	(377)	(5,181)	(5,558)	—	(62,502)	(1,610)
Impairment charge (Note 17)	(2,004)	—	—	(2,004)	—	973	—
Closing net book amount as at 30 June 2005	<u>—</u>	<u>7,040</u>	<u>42,548</u>	<u>49,588</u>	<u>8,712</u>	<u>1,538,911</u>	<u>131,754</u>
	Goodwill	Patent and trademarks	Staff quarters reform costs	Total intangible assets	Investment properties	Property, plant and equipment and construction in progress	Land use rights
Opening net book amount as at 1 January 2004	—	2,912	58,571	61,483	8,712	1,401,264	127,870
Additions	—	5,008	—	5,008	—	121,829	—
Acquisition of a subsidiary	—	—	—	—	—	343	—
Disposals	—	—	—	—	—	(3,198)	—
Depreciation / amortisation change (Note 17)	—	(223)	(5,223)	(5,446)	—	(56,259)	(1,513)
Transfer out of impairment charge (Note 17)	—	—	—	—	—	101	—
Closing net book amount as at 30 June 2004	<u>—</u>	<u>7,697</u>	<u>53,348</u>	<u>61,045</u>	<u>8,712</u>	<u>1,464,080</u>	<u>126,357</u>
Additions	2,154	—	—	2,154	—	185,607	9,548
Contribution by minority shareholders	—	—	—	—	—	9,508	—
Acquisition of a subsidiary	—	—	—	—	—	728	—
Disposals	—	—	—	—	—	(2,990)	—
Depreciation / amortisation change (Note 17)	(150)	(280)	(5,223)	(5,653)	—	(59,084)	(1,575)
Impairment charge (Note 17)	—	—	—	—	—	(1,656)	(966)
Closing net book amount as at 31 December 2004	<u>2,004</u>	<u>7,417</u>	<u>48,125</u>	<u>57,546</u>	<u>8,712</u>	<u>1,596,193</u>	<u>133,364</u>

**6 Jointly controlled entity**

During the period, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("WLJ"), a subsidiary of the Group, has issued additional 98,378,439 shares to a third party investor for total subscription price of RMB168,880,000. Consequently, the Group's interest in WLJ has been diluted from 92.48% to 48.0465% and WLJ became a jointly controlled entity of the Group since the effective completion date of subscription. Gain arising from this deemed disposal has been included in the consolidated income statement.

The following amounts represent the Group's 48.0465% share of assets and liabilities as at 30 June 2005 and results of this jointly controlled entity, and have been included in the condensed consolidated balance sheet as at 30 June 2005 and income statement for the period ended:

<b>Assets:</b>	
Non-current assets	52,340
Current assets	144,580
	<u>196,920</u>
<b>Liabilities:</b>	
Non-current liabilities	2,532
Current liabilities	33,329
	<u>35,861</u>
<b>Net assets</b>	<u><u>161,059</u></u>
<b>Results:</b>	
Income	149,335
Expenses	(129,108)
	<u>20,227</u>
<b>Profit after income tax</b>	<u><u>20,227</u></u>
<b>Proportionate interest in commitments</b>	<u><u>993</u></u>

There are no contingent liabilities in this jointly controlled entity as at 30 June 2005.

**7 Available-for-sale financial assets**

At 1 January 2005	64,863
Disposals and impairment loss	(655)
	<u>64,208</u>
At 30 June 2005	<u><u>64,208</u></u>

Available-for-sale financial assets represent unlisted equity securities. The amount of provision for impairment losses as at 30 June 2005 was RMB9,114,000.

**8 Investment securities**

	<b>As at</b>
	<b>31 December 2004</b>
Unlisted equity securities	<u><u>64,863</u></u>

The amount of provision for impairment losses as at 31 December 2004 was RMB8,459,000.

## 9 Trade and other receivables

	As at	
	30 June 2005	31 December 2004
Trade receivables	1,623,242	1,207,391
Less: provision for impairment of receivables	(60,021)	(54,457)
Trade receivables - net	1,563,221	1,152,934
Other receivables and prepayments	293,673	352,991
Due from ultimate holding company and fellow subsidiaries	10,296	12,708
	<u>1,867,190</u>	<u>1,518,633</u>

The ageing analysis of the trade receivables net of doubtful debt provision at 30 June 2005 is as follows:

	As at	
	30 June 2005	31 December 2004
Within 6 months	1,504,524	1,035,255
6 months to 1 year	28,847	104,247
Over 1 year	29,850	13,432
	<u>1,563,221</u>	<u>1,152,934</u>

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

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

During the six months ended 30 June 2005, the Group has recognised a loss of RMB8,521,000 (2004: RMB5,933,000) for the impairment of its trade receivables. The loss has been included in administrative expenses in the income statement.

## 10 Financial assets at fair value through profit or loss

	As at 30 June 2005
Held for trading:	
— Unlisted debt securities	<u>13,110</u>

## 11 Trading securities

	As at 31 December 2004
Unlisted investments	<u>18,562</u>

## 12 Share capital

	Registered, issued and fully paid	
	As at 31 December 2004 and 30 June 2005	
	No. of shares	
State Shares	513,000,000	513,000
H Shares	219,900,000	219,900
A Shares	78,000,000	78,000
	<u>810,900,000</u>	<u>810,900</u>

## 13 Other reserves

	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare	Discretionary surplus reserve	Total
Balance at 1 January 2004, as previously reported	781,134	397,589	194,306	134,459	87,681	1,595,169
Transfer from retained earnings	—	405	—	—	—	405
<b>Balance at 30 June 2004</b>	<u>781,134</u>	<u>397,994</u>	<u>194,306</u>	<u>134,459</u>	<u>87,681</u>	<u>1,595,574</u>
Transfer from retained earnings	—	1,838	23,716	19,114	21,319	65,987
<b>Balance at 31 December 2004</b>	<u>781,134</u>	<u>399,832</u>	<u>218,022</u>	<u>153,573</u>	<u>109,000</u>	<u>1,661,561</u>
Balance at 1 January 2005, as per above	781,134	399,832	218,022	153,573	109,000	1,661,561
Transfer						
— Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution)	—	19,819	(3,455)	(3,007)	(3,455)	9,902
— Others	—	(366)	—	—	—	(366)
<b>Balance at 30 June 2005</b>	<u>781,134</u>	<u>419,285</u>	<u>214,567</u>	<u>150,566</u>	<u>105,545</u>	<u>1,671,097</u>

## 14 Trade and other payables

	As at	
	30 June 2005	31 December 2004
Trade payables	1,070,473	985,686
Due to ultimate holding company	25,257	19,865
Other payables and accrued charges	457,080	424,663
	<u>1,552,810</u>	<u>1,430,214</u>

The ageing analysis of the trade payables at 30 June 2005 is as follows:

	As at	
	30 June 2005	31 December 2004
Within 1 year	1,015,766	952,171
1 year to 2 years	40,989	13,724
Over 2 years	13,718	19,791
	<u>1,070,473</u>	<u>985,686</u>

## 15 Borrowings

	As at	
	30 June 2005	31 December 2004
<b>Non-current</b>		
Bank loans		
— secured	—	11,820
— unsecured	30,000	97,680
	<u>30,000</u>	<u>109,500</u>
<b>Current</b>		
Bank loans - secured		
Short-term bank loans	236,471	255,959
Current portion of long-term bank loans	99,500	47,680
Bank loans - unsecured	669,586	681,500
	<u>1,005,557</u>	<u>985,139</u>
<b>Total borrowings</b>	<u><b>1,035,557</b></u>	<u><b>1,094,639</b></u>

Except for bank loans of RMB80 million (with interest expense of approximately RMB 730,000 incurred during the six months ended 30 June 2005), all bank loans are borrowed from state-controlled banks at prevailing market rates. Bank loans are secured by property, plant and equipment of the Group with net book value of approximately RMB124,913,000 at 30 June 2005 (31 December 2004: approximately RMB130,344,000).

The maturity of the borrowings is as follows:

	As at	
	30 June 2005	31 December 2004
Within 1 year	1,005,557	985,139
Between 1 and 2 years	30,000	109,500
	<u>1,035,557</u>	<u>1,094,639</u>

The effective interest rates as at the balance sheet date were as follows:

	As at	
	30 June 2005	31 December 2004
Long-term bank loans	4.941%	5.239%
Short-term bank loans	4.608%	4.858%

The carrying amounts and fair value of the non-current bank loans are as follows:

	Carrying amounts	Fair values
As at 30 June 2005	30,000	30,000
As at 31 December 2004	<u>109,500</u>	<u>109,500</u>

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.941% (31 December 2004: 5.239%).

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of all the Group's borrowings as at 30 June 2005 and as at 31 December 2004 are denominated in RMB.

The Group has the following undrawn bank loan facilities:

	As at	
	30 June 2005	31 December 2004
Floating rate — expiring within one year	<u>11,000</u>	<u>37,284</u>
<b>16 Other revenues</b>		
	For the six months ended	
	30 June 2005	30 June 2004
Government grants	297	375
Interest income	5,908	6,580
Rental income from investment properties	9,358	8,750
Rental income from other properties	6,872	4,541
Promotional income from suppliers	4,000	3,714
Royalty income	846	802
Gain arising from dilution of equity interest in a subsidiary (Note 13)	19,819	—
Others	(1,435)	5,596
	<u>45,665</u>	<u>30,358</u>
<b>17 Expenses by nature</b>		

Expenses included in cost of goods sold, distribution costs, administrative and other operating expenses are analysed as follows:

	For the six months ended	
	30 June 2005	30 June 2004
Depreciation, amortisation and impairment expenses (Note 5)	70,701	63,117
Staff costs	312,584	299,976
Changes in inventories of finished goods and work in progress	(5,954)	(4,105)
Write-down of inventories to net realisable value	193	24,494
Transportation	28,146	26,487
Advertising costs	117,308	126,144
Occupancy costs of retail outlets	16,477	17,573
Research and development costs	12,276	12,621
Impairment charge of available-for-sale financial assets and financial assets at fair value through profit or loss / investment securities	5,452	752
	<u>5,452</u>	<u>752</u>

**18 Finance costs**

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
Interest expense on bank borrowings	<b>28,321</b>	21,115
Other incidental borrowing costs	<b>1,894</b>	1,367
	<b><u>30,216</u></b>	<u>22,482</u>

**19 Income tax expense**

The PRC enterprise income tax has been provided at the principal rate of 33% (2004: 33%) on the estimated assessable profit for the period, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises. Given the subsidiary was established in a coastal economic development zone, the applicable enterprise income tax rate being 27%. The jointly controlled entity is entitled to exemption from PRC enterprise income tax for two years commencing from the first profit-making year and a 50% reduction in the enterprise income tax rates in the following three years. 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 income statement represents:

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
Current taxation		
— PRC enterprise income tax	<b>60,005</b>	52,938
Deferred income tax	<b>(5,262)</b>	(7,450)
	<b><u>54,743</u></b>	<u>45,488</u>

During the six months ended 30 June 2005 and 30 June 2004, share of taxation of associates and jointly controlled entities was nil. This was principally either due to the operating loss positions or the eligibility of full income tax exemption thereof.

**20 Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of shares in issue.

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
Profit attributable to equity holders of the Company	<b>122,956</b>	34,076
Number of shares in issue (thousand)	<b>810,900</b>	810,900
Basic earnings per share (RMB per share)	<b><u>0.152</u></b>	<u>0.042</u>

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the period ended 30 June 2005 and 2004.

**21 Dividend**

	<b>For the six months ended</b>	
	<b>30 June 2005</b>	30 June 2004
2004 final dividend of RMB0.025 (2003: final dividend paid of RMB0.06) per share	<b><u>20,273</u></b>	<u>48,654</u>

At a meeting held on 27 April 2005, the directors proposed a final dividend of RMB0.025 per share for the year ended 31 December 2004, which was paid in June and July 2005 for H and A shares respectively and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2005.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2005.

## 22 Capital commitments

Capital commitments at the balance sheet date but not yet incurred are as follows:

	As at	
	30 June 2005	31 December 2004
Property, plant and equipment		
Contracted but not provided for	26,466	24,836
Authorised but not contracted for	8,091	50,689
	<u>34,557</u>	<u>75,525</u>

## 23 Related party transactions

Save as disclosed elsewhere in the condensed consolidated financial information, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Note	For the six months ended	
		30 June 2005	30 June 2004
Ultimate holding company			
License fee expense	a	5,848	4,310
Service fee expense	b	431	450
Welfare facilities fee expense	c	129	135
Rental expense	d	1,642	1,453
Capital contribution to a subsidiary of the Company		—	3,889
		<u>8,050</u>	<u>10,237</u>
A jointly controlled entity			
Sales of raw materials	e	6,170	—
Purchases of finished goods	e	12,514	—
		<u>18,684</u>	<u>—</u>
Associates			
Purchases of finished goods	e	—	67
Fellow subsidiaries			
Sales of finished goods and raw materials	e	98,845	38,784
Purchases of finished goods and raw materials	e	198,498	60,883
		<u>297,343</u>	<u>99,667</u>
Other state-controlled entities			
Sales of finished goods and raw materials	g	1,739,012	1,617,371
Purchases of finished goods and raw materials	e	843,989	780,919
Purchases of machinery and equipment	e	11,703	15,659
Service fee expenses	f	128,217	95,515
		<u>2,722,921</u>	<u>2,509,464</u>



- (a) Pursuant to the Trademark License Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited (“GZPHL”), its ultimate holding company, on 1 September 1997, GZPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries. Effective February 2005, trademark licence fee of WLJ has been changed to 2.1% of its net sales.
- (b) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1 September 1997 and supplemented by a notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.
- (c) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL’s total depreciation charges of the welfare facilities in the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31 December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 6 February 2004, GZPHL 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 31 August 2007.
- (e) The sales and purchases transactions with a jointly controlled entity, associates, fellow subsidiaries and other state-owned entities were at terms similar to those transactions with other third parties.
- (f) Service fee charged by other state-controlled entities are mainly in relation to advertising and promotion activities, commercial insurance and transportation. These transactions were entered into at open market terms.
- (g) The directors of the Company have tried their best efforts in identifying the related party transactions entered into with other state-controlled entities. Normal transactions entered into with financial institutions, public utilities providers and governmental departments and agencies have been excluded.

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

1. The original copy of the interim report signed by the Company’s legal representative;
2. The original copy of the financial reports signed and stamped by the legal representative, person in charge of the accounting function of the Company and the person in charge of an accounting firm;
3. The original company documents and announcements published in Shanghai Securities of Mainland China, and Hong Kong Economic Times and The Standard during the Reporting Period;
4. The Company’s Articles of Association;
5. Other relevant documents.

**The documents listed above are available at the Secretariat to the Board of Directors of the Company.**

Guangzhou Pharmaceutical Company Limited  
**Yang Rongming**  
*Chairman*

Guangzhou, the PRC, 12 August 2005