

# CONSOLIDATED BALANCE SHEET

As at 31 December 2005

Form 1-1  
In RMB Yuan

	Notes	31 December 2005	31 December 2004
<b>ASSETS</b>			
<b>Current assets:</b>			
Monetary Funds	VI-1	616,982,949.00	880,824,597.90
Short-term investments	VI-2	10,902,520.00	18,562,000.00
Notes receivable	VI-3	331,753,863.41	185,209,600.23
Dividends receivable	VI-4	3,709,259.53	—
Interest receivable		—	—
Accounts receivable	VI-5	959,776,870.53	967,659,441.43
Other receivable	VI-6	64,432,895.76	111,782,083.42
Advances to suppliers	VI-7	196,548,528.21	160,243,931.81
Subsidies receivable	VI-8	3,361,927.18	2,224,155.35
Inventories	VI-9	1,148,568,922.06	1,077,924,756.16
Prepaid expenses	VI-10	120,665,259.48	89,835,431.99
Long-term debenture investments due within one year		—	—
Other current assets		—	—
<b>Total current Assets</b>		<b>3,456,702,995.16</b>	<b>3,494,265,998.29</b>
<b>Long-term investment</b>			
Long-term equity investment	VI-11	70,195,741.17	74,610,894.56
Long-term debenture investment		—	—
<b>Total long-term investment</b>		<b>70,195,741.17</b>	<b>74,610,894.56</b>
Including: consolidation variance	VI-11	3,828,294.03	4,175,432.85
Including: equity investment differences		3,828,294.03	4,175,432.85
<b>Fixed assets</b>			
Fixed assets-cost	VI-12	1,974,405,781.70	1,980,499,364.41
Less: Accumulated depreciation	VI-12	658,927,334.13	583,351,522.12
Fixed assets-net value		1,315,478,447.57	1,397,147,842.29
Less: Provisions for impairment of fixed assets	VI-12	17,902,314.55	25,352,941.92
Net of fixed assets		1,297,576,133.02	1,371,794,900.37
Construction supplies		—	—
Construction work in progress	VI-13	159,910,405.52	119,645,075.10
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>1,457,486,538.54</b>	<b>1,491,439,975.47</b>
<b>Intangible assets &amp; other assets:</b>			
Intangible assets	VI-14	98,677,683.80	103,345,329.75
Long-term deferred expenses	VI-15	15,031,582.69	19,215,827.64
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>113,709,266.49</b>	<b>122,561,157.39</b>
<b>Deferred tax</b>			
Deferred tax debits		—	—
<b>TOTAL ASSETS</b>		<b>5,098,094,541.36</b>	<b>5,182,878,025.71</b>

# CONSOLIDATED BALANCE SHEET

As at 31 December 2005

Form 1-2  
In RMB Yuan

TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	Notes	31 December 2005	31 December 2004
<b>Current liabilities:</b>			
Short-term loans	VI-16	<b>867,785,368.60</b>	937,458,830.03
Notes payable	VI-17	<b>86,008,063.38</b>	137,052,834.12
Accounts payable	VI-18	<b>869,696,059.12</b>	848,628,472.16
Advances from customers	VI-19	<b>31,129,313.34</b>	22,901,240.89
Accrued payroll		<b>45,376,812.42</b>	50,994,217.94
Welfare payable		<b>52,939,978.26</b>	51,590,272.62
Dividend payable	VI-20	<b>26,492.89</b>	26,383.04
Taxes payable	VI-21	<b>24,377,413.61</b>	24,041,244.06
Other liabilities	VI-22	<b>3,628,657.66</b>	2,880,392.94
Other payables	VI-23	<b>191,144,199.01</b>	265,572,457.79
Accrued expenses	VI-24	<b>14,220,101.58</b>	9,231,282.20
Estimated liabilities		—	—
Long-term liabilities due within 1 year	VI-25	<b>50,000,000.00</b>	47,680,000.00
Other current liabilities		—	—
<b>Total current liabilities</b>		<b><u>2,236,332,459.87</u></b>	<u>2,398,057,627.79</u>
<b>Long-term liabilities:</b>			
Long-term loans	VI-26	—	109,500,000.00
Bonds payable		—	—
Long-term payable	VI-27	<b>4,716,728.21</b>	5,020,012.56
Special payables	VI-28	<b>50,109,349.38</b>	33,810,171.91
Other long-term liabilities		—	—
<b>Total long-term liabilities</b>		<b><u>54,826,077.59</u></b>	<u>148,330,184.47</u>
<b>Deferred tax</b>			
Deferred tax credits		—	—
<b>Total liabilities</b>		<b><u>2,291,158,537.46</u></b>	<u>2,546,387,812.26</u>
<b>Minority shareholders' equity</b>			
		<b>185,499,251.78</b>	196,260,508.34
<b>Shareholders' equity:</b>			
Share capital	VI-29	<b>810,900,000.00</b>	810,900,000.00
Capital surplus	VI-30	<b>1,149,453,755.66</b>	1,126,381,425.35
Surplus reserved	VI-31	<b>567,243,340.17</b>	480,442,389.26
Including: Statutory public welfare fund	VI-31	<b>179,461,575.56</b>	153,572,065.40
Retained earnings	VI-32	<b>93,839,656.29</b>	22,505,890.50
Including: cash dividends planed to allocate	VI-32	<b>56,763,000.00</b>	20,272,500.00
Exchange difference on foreign currency statement		—	—
Less: unconfirmed investment loss		—	—
<b>Total Shareholders' equity</b>		<b><u>2,621,436,752.12</u></b>	<u>2,440,229,705.11</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>5,098,094,541.36</u></b>	<u>5,182,878,025.71</u>

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

Form 2-1  
In RMB Yuan

Items	Notes	2005	2004
<b>I. Sales from principal operations</b>	VI-33	<b>9,026,340,433.50</b>	7,708,313,589.34
Less: Cost of principal operations	VI-34	<b>7,472,974,332.17</b>	6,312,061,516.70
Less: Sales tax and levies	VI-35	<b>24,613,910.81</b>	23,762,977.68
<b>II. Profit from principal operations</b>		<b>1,528,752,190.52</b>	1,372,489,094.96
Add: Profit from other operations	VI-36	<b>43,301,531.41</b>	39,007,734.82
Less: Operating expenses		<b>592,206,898.41</b>	533,614,941.06
Less: General and administrative expenses		<b>628,434,629.66</b>	656,588,252.79
Less: Financial expenses	VI-37	<b>43,098,471.57</b>	37,872,578.65
<b>III. Operating profit</b>		<b>308,313,722.29</b>	183,421,057.28
Add: Investment income	VI-38	<b>(8,063,080.65)</b>	(4,735,840.64)
Add: Subsidies income		<b>720,456.65</b>	588,921.00
Add: Non-operating income	VI-39	<b>6,194,512.31</b>	6,838,595.53
Less: Non-operating expenses	VI-40	<b>424,826.14</b>	18,470,362.19
<b>IV. Total profit</b>		<b>306,740,784.46</b>	167,642,370.98
Less: Income tax		<b>112,611,673.47</b>	103,569,528.75
Less: Loss and gain of minority shareholders		<b>9,647,562.96</b>	8,781,241.46
<b>V. Net profit</b>		<b>184,481,548.03</b>	55,291,600.77

## Supplemental information:

Items	Notes	2005	2004
1 Revenue from sale or disposal of department or invested company		<b>4,674.88</b>	(522,942.99)
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 alteration		—	—
5 Loss from debts reconstruction		—	—
6 Others		—	—

# SUPPLEMENTARY CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

Form 2-2  
In RMB Yuan

Profit for the period	2005				2004			
	Return on net assets		Earnings per share		Return on net assets		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	58.32%	60.61%	1.89	1.89	56.24%	56.42%	1.69	1.69
Operating profit	11.76%	12.22%	0.38	0.38	7.52%	7.54%	0.23	0.23
Net profit	7.04%	7.31%	0.23	0.23	2.27%	2.27%	0.07	0.07
Net profit after deduction of extraordinary gain or loss	7.08%	7.64%	0.23	0.23	2.59%	2.63%	0.08	0.08

# CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION

For the year ended 31 December 2005

Form 3  
In RMB Yuan

Items	Notes	2005	2004
<b>1. Net profit</b>		<b>184,481,548.03</b>	55,291,600.77
Add: Retained earnings brought forward		<b>22,505,890.50</b>	82,558,496.93
Add: Transfer from others		<b>9,916,543.07</b>	153,385.06
<b>2. Profit distributable</b>		<b>216,903,981.60</b>	138,003,482.76
Less: Provision of statutory surplus reserves		<b>38,561,412.17</b>	21,697,098.56
Less: Provision of public welfare fund		<b>28,896,962.62</b>	19,113,504.99
Less: Provision of staff bonus and welfare fund		<b>6,074,331.34</b>	2,693,501.02
Less: Provision of reserve fund		<b>2,611,460.90</b>	1,010,062.88
Less: Provision of enterprise expansion fund		<b>2,611,460.90</b>	1,010,062.88
Less: Profit returned to investment		—	—
<b>3. Profit distributable to shareholders</b>		<b>138,148,353.67</b>	92,479,252.44
Less: Dividends for preferred shares		—	—
Less: Provision of discretionary surplus reserves		<b>24,036,197.38</b>	21,319,361.94
Less: Dividend for ordinary shares		<b>20,272,500.00</b>	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital		—	—
<b>4. Retained earnings</b>		<b><u>93,839,656.29</u></b>	<u>22,505,890.50</u>

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2005

Form 4-1  
In RMB Yuan

Items	Notes	2005	2004
<b>I. Cash flows from operating activities:</b>			
Cash received from sales of goods or rendering services		10,425,844,220.73	8,914,281,463.31
Refund of tax and levy		12,437,554.21	18,540,083.82
Other cash received relating to operating activities	VI-42	104,674,129.82	78,958,875.02
<b>Subtotal of cash inflows</b>		<b>10,542,955,904.76</b>	<b>9,011,780,422.15</b>
Cash paid for goods or services		8,622,540,156.21	7,139,659,628.54
Cash paid to or on behalf of employees		584,881,163.05	576,229,016.66
Taxes paid		492,373,347.10	456,071,929.74
Other cash paid in relation to operating activities	VI-43	696,838,662.67	639,277,649.21
<b>Subtotal of cash outflows</b>		<b>10,396,633,329.03</b>	<b>8,811,238,224.15</b>
<b>Net cash flows from operating activities</b>		<b>146,322,575.73</b>	<b>200,542,198.00</b>
<b>II. Cash flows from investing activities:</b>			
Cash received from sale of investments		190,756.16	46,803,573.16
Including: cash received from sales of subsidiaries		—	6,459,376.03
Cash received from investment income		3,405,374.88	8,402,627.39
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,229,572.07	1,010,598.15
Other cash received from investing activities		2,000,178.00	14,621,805.19
<b>Subtotal of cash inflows</b>		<b>6,825,881.11</b>	<b>70,838,603.89</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		124,356,012.08	308,690,297.77
Cash paid to acquire investments		—	16,499,805.39
Other cash paid in relation to investing activities		505,373.25	1,520,000.00
<b>Subtotal of cash outflows</b>		<b>124,861,385.33</b>	<b>326,710,103.16</b>
<b>Net cash flows from investing activities</b>		<b>(118,035,504.22)</b>	<b>(255,871,499.27)</b>
<b>III. Cash flows from financing activities:</b>			
Proceeds from acquiring investments		62,626,946.09	5,014,795.47
Including: cash received from minority shareholders equity investment of subsidiaries		62,626,946.09	5,014,795.47
Proceeds from borrowings		867,953,886.81	936,498,816.40
Other proceeds relating to financing activities		473,964,226.86	401,729,801.27
<b>Subtotal of cash inflows</b>		<b>1,404,545,059.76</b>	<b>1,343,243,413.14</b>
Cash repayments of amounts borrowed		1,075,515,518.21	766,678,816.40
Cash payments for distribution of dividends, profits or interest expenses		74,551,470.52	96,121,136.72
Including: cash payments for dividends to minority shareholders		9,835,658.26	10,282,963.03
Other cash payments relating to financing activities		546,408,456.20	360,666,766.39
<b>Subtotal of cash outflows</b>		<b>1,696,475,444.93</b>	<b>1,223,466,719.51</b>
<b>Net cash flows from financing activities</b>		<b>(291,930,385.17)</b>	<b>119,776,693.63</b>
<b>IV. Effect of foreign exchange rate changes on cash</b>		<b>(198,335.24)</b>	<b>(61,835.60)</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>(263,841,648.90)</b>	<b>64,385,556.76</b>

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2005

Form 4-2  
In RMB Yuan

Supplemental Information	2005	2004
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	184,481,548.03	55,291,600.77
Loss & gain of minority shareholders	9,647,562.96	8,781,241.46
Add: Provision for value impairment of assets	(2,734,638.44)	31,304,538.30
Depreciation of fixed assets	114,393,515.73	104,725,490.30
Amortization of intangible assets	4,648,287.25	4,077,196.86
Amortization of long-term prepaid expenses	10,699,040.96	14,538,987.42
Decrease in prepaid expenses (less: increase)	(30,829,827.49)	1,464,923.07
Increase in accrued expenses (less: decrease)	4,988,819.38	4,774,989.65
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	610,373.49	177,188.37
Losses on scrapping of fixed assets	944,068.05	3,324,459.40
Financial expenses	44,443,422.11	37,199,378.70
Losses on investments (less: gains)	8,063,080.65	4,735,840.64
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	(47,282,873.71)	(34,941,011.89)
Decrease in operating receivables (less: increase)	(81,163,674.49)	(83,578,581.34)
Increase in operating payables (less: decrease)	(63,827,561.33)	48,665,956.29
Others (note)	(10,758,567.42)	—
<b>Net cash flows from operating activities</b>	<b>146,322,575.73</b>	<b>200,542,198.00</b>
<b>2. Investing and financing activities that do not involve cash receipts or payments:</b>		
Conversion of debt into capital	—	—
Convertible bonds due within 1 year	—	—
Fixed assets under finance lease	—	—
<b>3. Net increase in cash and cash equivalents:</b>		
Cash at the end of period	616,982,949.00	880,824,597.90
Less: Cash at the beginning of the period	880,824,597.70	816,439,041.14
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>(263,841,648.90)</b>	<b>64,385,556.76</b>

Note: The relevant procedures in relation to the injection of capital into Guangzhou Wanglaoji Pharmaceutical Co., Ltd by a new Shareholders was completed in March 2005. Therefore, the Company became a joint controlling shareholder instead of the controlling shareholder of Guangzhou Wanglaoji Pharmaceutical Co., Ltd., and the results of which was consolidated according to the proportion of the shareholding of the Company therein. The accumulated amount for the year under this item represents the impact of the change of consolidation.

# STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY

For the ended 31 December year 2005

Supplementary information of Consolidated balance Sheet Part 1  
In RMB Yuan

Items	Notes	2005	2004
<b>I. Paid-in stock:</b>	VI-29		
Beginning balance		<b>810,900,000.00</b>	810,900,000.00
Increase in the current year		—	—
Decrease in the current year		—	—
Closing balance		<b>810,900,000.00</b>	810,900,000.00
<b>II. Capital surplus:</b>	VI-30		
Beginning balance		<b>1,126,381,425.35</b>	1,119,572,202.41
Increase in the current year		<b>23,072,330.31</b>	8,932,224.94
Including: Share premium		—	—
Reserve of donation			
in form of non-cash assets		<b>440,280.48</b>	391,662.19
Receipt of cash donation		—	—
Equity investment reserve		<b>18,900,519.82</b>	215,256.10
Transfer-in from government			
appropriation		<b>1,334,850.00</b>	3,409,298.05
Exchange difference on			
foreign currency capital		—	—
Other capital surplus		<b>2,396,680.01</b>	4,916,008.60
Decrease in the current year		—	2,123,002.00
Including: Recovery of losses		—	—
Closing balance		<b>1,149,453,755.66</b>	1,126,381,425.35
<b>III. Statutory and discretionary surplus reserves:</b>	VI-31		
Beginning balance		<b>326,870,323.86</b>	281,987,122.66
Increase in the current year		<b>67,820,531.35</b>	45,036,586.26
Including: Amount appropriated			
from net income		<b>67,820,531.35</b>	45,036,586.26
Including: Statutory surplus reserve		<b>41,172,873.07</b>	22,707,161.44
Discretionary surplus reserve		<b>26,647,658.28</b>	22,329,424.82
Transfer-in from statutory			
public welfare fund		—	—
Decrease in the current year		<b>6,909,090.60</b>	153,385.06
Including: Recovery of losses		—	—
Conversion into share capital		—	—
Allocation of cash dividend or profit		—	—
Allocation of stock dividend		—	—
Closing balance		<b>387,781,764.61</b>	326,870,323.86
Including: Statutory surplus reserve		<b>253,770,252.86</b>	216,051,925.08



# STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY

For the ended 31 December year 2005

Supplementary information of Consolidated balance Sheet Part 1  
In RMB Yuan

Items	Notes	2005	2004
<b>IV. Statutory public welfare fund:</b>	VI-31		
Beginning balance		<b>153,572,065.40</b>	134,458,560.41
Increase in the current year		<b>28,896,962.62</b>	19,113,504.99
Including: Provision from net income		<b>28,896,962.62</b>	19,113,504.99
Decrease in the current year		<b>3,007,452.46</b>	—
Including: Collective welfare expenditures		—	—
Ending balance		<b>179,461,575.56</b>	153,572,065.40
<b>V. Retained Earnings:</b>	VI-32		
Beginning balance		<b>22,505,890.50</b>	82,558,496.93
Transferred from others		<b>9,916,543.07</b>	153,385.06
Net profit in the year		<b>184,481,548.03</b>	55,291,600.77
Profit distribution in the current year		<b>123,064,325.31</b>	115,497,592.26
Losses made up by capital surplus		—	—
Closing balance		<b>93,839,656.29</b>	22,505,890.50

# BREAKDOWN OF PROVISION FOR ASSETS'S VALUE IMPAIRMENT

For the Year ended 31 December 2005

Supplementary Information of consolidated Balance Sheet, part 2  
In RMB Yuan

Items	Beginning balance	Current increase	Current recovery		Sub-total	Closing balance
			Reversal due to recovery of assets value	Transfer-out due to other reasons		
1. Total provision for bad debts	67,775,217.66	2,733,714.36	—	12,655,350.58	12,655,350.58	57,853,581.44
Including: Accounts receivable	54,456,273.58	427,295.32	—	10,002,576.38	10,002,576.38	44,880,992.52
Other receivables	13,318,944.08	2,306,419.04	—	2,652,774.20	2,652,774.20	12,972,588.92
2. Total provision for short-term investment	1,190,600.00	7,659,480.00	—	—	—	8,850,080.00
Including: Stock investment	—	—	—	—	—	—
Debenture investment	675,600.00	7,126,480.00	—	—	—	7,802,080.00
Fund investment	515,000.00	533,000.00	—	—	—	1,048,000.00
3. Total provision for inventories	25,315,519.02	526,727.38	—	23,888,019.57	23,888,019.57	1,954,226.83
Including: Goods in stock	24,952,828.40	526,727.38	—	23,568,891.58	23,568,891.58	1,910,664.20
Raw materials	298,752.78	—	—	255,190.15	255,190.15	43,562.63
4. Total provision for long-term investment	1,613,629.84	—	—	535,078.61	535,078.61	1,078,551.23
Including: Long-term equity investment	1,613,629.84	—	—	535,078.61	535,078.61	1,078,551.23
Long term debenture investment	—	—	—	—	—	—
5. Total provision for fixed assets	25,352,941.92	1,114,672.07	7,109,752.25	1,455,547.19	8,565,299.44	17,902,314.55
Including: Houses & buildings	18,150,656.61	641,002.56	7,109,752.25	38,549.44	7,148,301.69	11,643,357.48
Machinery equipment	6,371,146.29	473,669.51	—	1,263,097.17	1,263,097.17	5,581,718.63
6. Provision for intangible assets	966,151.46	—	—	—	—	966,151.46
Including: Patent	—	—	—	—	—	—
Trademark	—	—	—	—	—	—
7. Provision for construction work in progress	130,000.00	—	—	—	—	130,000.00
8. Provision for loan by trust	—	—	—	—	—	—
9. Total	<u>122,344,059.90</u>	<u>12,034,593.81</u>	<u>7,109,752.25</u>	<u>38,533,995.95</u>	<u>45,643,748.20</u>	<u>88,734,905.51</u>

# BALANCE SHEET

As at 31 December 2005

From 5-1  
In RMB Yuan

ASSETS	Notes	31 December 2005	31 December 2004
<b>Current assets:</b>			
Monetary Funds		90,102,690.07	201,807,672.50
Short-term investments		372,902,520.00	18,562,000.00
Notes receivable		—	—
Dividends receivable		7,720,145.68	—
Interest receivable		—	—
Accounts receivable		—	—
Other receivables	VII-1	166,931,572.06	345,237,748.98
Advances to suppliers		—	—
Subsidies receivable		—	—
Inventories		—	—
Prepaid expenses		—	—
Long-term debenture investments		—	—
due within 1 year		—	—
Other current assets		—	—
<b>Total current Assets</b>		<b>637,656,927.81</b>	<b>565,607,421.48</b>
<b>Long-term investments:</b>			
Long-term equity investment	VII-2	2,025,934,634.58	1,877,883,028.41
Long-term investments investment		—	—
<b>Total long-term investment</b>		<b>2,025,934,634.58</b>	<b>1,877,883,028.41</b>
<b>Fixed assets:</b>			
Fixed assets-cost		41,236,900.52	41,005,158.52
Less: Accumulated depreciation		17,535,891.44	13,438,004.00
Fixed assets-net value		23,701,009.08	27,567,154.52
Less: Provisions for impairment of fixed assets		—	7,109,752.25
Net of fixed assets		23,701,009.08	20,457,402.27
Construction materials		—	—
Construction work in progress		—	—
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>23,701,009.08</b>	<b>20,457,402.27</b>
<b>Intangible assets &amp; other assets:</b>			
Intangible assets		—	—
Long-term deferred expenses		912,355.01	1,492,460.43
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>912,355.01</b>	<b>1,492,460.43</b>
<b>Deferred tax:</b>			
Deferred tax debits		—	—
<b>TOTAL ASSETS</b>		<b>2,688,204,926.48</b>	<b>2,465,440,312.59</b>

# BALANCE SHEET

As at 31 December 2005

From 5-2  
In RMB Yuan

TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	31 December 2005	31 December 2004
<b>Current liabilities:</b>		
Short-term loans	40,000,000.00	—
Notes payable	—	—
Accounts payable	—	—
Advances from customers	—	—
Accrued payroll	1,734,915.18	2,430,268.38
Welfare payable	3,487,779.14	3,346,137.21
Dividend payable	24,739.37	25,980.20
Taxes payable	390,052.43	424,662.76
Other liabilities	12,605.17	21,220.74
Other payables	5,887,062.42	18,585,121.28
Accrued expenses	2,430,164.70	2,150,000.00
Estimated liabilities	—	—
Long-term liabilities due within 1 year	—	—
Other current liabilities	—	—
<b>Total current liabilities</b>	<b>53,967,318.41</b>	<b>26,983,390.57</b>
<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>—</b>	<b>—</b>
<b>Deferred tax</b>		
Deferred tax credits	—	—
<b>Total liabilities</b>	<b>53,967,318.41</b>	<b>26,983,390.57</b>
<b>Shareholders' equity:</b>		
Share capital	810,900,000.00	810,900,000.00
Less: investment returned	—	—
Net share capital	810,900,000.00	810,900,000.00
Capital surplus	1,148,510,273.74	1,125,595,838.66
Surplus reserved	182,088,980.38	153,118,167.58
Including: statutory public welfare fund	71,271,823.11	61,614,885.51
Retained earnings	492,738,353.95	348,842,914.78
Including: cash dividends planned to allocate	56,763,000.00	20,272,500.00
<b>Total Shareholders' equity</b>	<b>2,634,237,608.07</b>	<b>2,438,456,921.02</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,688,204,926.48</b>	<b>2,465,440,311.59</b>

# INCOME STATEMENT

For the year ended 31 December 2005

Form 6  
In RMB Yuan

Items	Notes	2005	2004
<b>I. Sales from principal operations</b>		—	—
Less: cost of principal operations		—	—
Less: Sales tax and levies		—	—
<b>II. Profit from principal operations</b>		—	—
Add: Profit from other operations		<b>7,446,705.82</b>	8,408,475.17
Less: Operating expenses		—	—
Less: General and administrative expenses		<b>24,099,918.37</b>	24,568,843.51
Less: Financial expenses		<b>(1,286,468.67)</b>	(2,129,172.49)
<b>III. Operating profit</b>		<b>(15,366,743.88)</b>	(14,031,195.85)
Add: Investment income	VII-3	<b>201,914,521.18</b>	62,978,959.10
Add: Subsidies income		—	—
Add: Non-operating income		<b>3,883.97</b>	10,807.00
Less: Non-operating expenses		<b>(6,587,090.70)</b>	196,623.30
<b>IV. Total profit</b>		<b>193,138,751.97</b>	48,761,946.95
Less: Income tax		—	—
<b>V. Net profit</b>		<b>193,138,751.97</b>	48,761,946.95

# THE STATEMENT OF PROFIT DISTRIBUTION

For the year ended 31 December 2005

Form 7  
In RMB Yuan

Items	2005	2004
<b>I. Net profit</b>	<b>193,138,751.97</b>	48,761,946.95
Add: Retained earnings brought forward	<b>348,842,914.78</b>	356,049,259.87
Add: Transfer from others	—	—
<b>II. Profit distributable</b>	<b>541,981,666.75</b>	404,811,206.82
Less: Provision of statutory surplus reserves	<b>19,313,875.20</b>	4,876,194.69
Less: Provision of statutory public welfare fund	<b>9,656,937.60</b>	2,438,097.35
Less: Provision of staff bonus and welfare fund	—	—
Less: Provision of reserve fund	—	—
Less: Provision of enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
<b>III. Profit distributable to shareholders</b>	<b>513,010,853.95</b>	397,496,914.78
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	<b>20,272,500.00</b>	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—
<b>IV. Retained earnings</b>	<b>492,738,353.95</b>	348,842,914.78

# STATEMENT OF CASH FLOW

For the Year of ended 31 December 2005

Form 8-1  
In RMB Yuan

Items	2005	2004
<b>I. Cash flows from operating activities:</b>		
Cash received from sales of goods or rendering services	—	—
Refund of tax and levy	—	—
Other cash received relating to operating activities	<b>11,308,896.03</b>	<b>11,954,078.34</b>
<b>Subtotal of cash inflows</b>	<b>11,308,896.03</b>	11,954,078.34
Cash paid for goods or services	—	—
Cash paid to or on behalf of employees	<b>6,577,370.76</b>	7,416,248.88
Taxes paid	<b>1,007,374.28</b>	504,669.44
Other cash paid in relation to operating activities	<b>14,115,308.38</b>	10,401,505.41
<b>Subtotal of cash outflows</b>	<b>21,700,053.42</b>	18,322,423.73
<b>Net cash flows from operating activities</b>	<b>(10,391,157.39)</b>	(6,368,345.39)
<b>II. Cash flows from investing activities:</b>		
Cash received from sale of investments	—	40,344,197.13
Including: cash received from sales of subsidiaries	—	—
Cash received from investment income	<b>115,690,821.22</b>	122,319,276.02
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>250.00</b>	690.00
Other cash received from investing activities	<b>306,697,905.06</b>	217,655,488.19
<b>Subtotal of cash inflows</b>	<b>422,388,976.28</b>	380,319,651.34
Cash paid to acquire fixed assets, intangible assets and other long-term assets	<b>2,698,984.00</b>	1,554,975.55
Cash paid to acquire investments	<b>38,272,320.08</b>	81,575,713.99
Including: cash paid for purchasing subsidiaries	—	71,575,713.99
Other cash paid in relation to investing activities	<b>492,220,716.73</b>	236,270,697.60
<b>Subtotal of cash outflows</b>	<b>533,192,020.81</b>	319,401,387.14
<b>Net cash flows from investing activities</b>	<b>(110,803,044.53)</b>	60,918,264.20
<b>III. Cash flows from financing activities</b>		
Proceeds from absorbing investments	—	—
Proceeds from borrowings	<b>148,000,000.00</b>	—
Other proceeds relating to financing activities	<b>51,059,940.88</b>	—
<b>Subtotal of cash inflows</b>	<b>199,059,940.88</b>	—
Cash repayments of amounts borrowed	<b>108,000,000.00</b>	—
Cash payments for distribution of dividends, profits or interest expenses	<b>21,383,911.13</b>	49,222,454.75
Other cash payments relating to financing activities	<b>59,988,928.55</b>	35,000,000.00
<b>Subtotal of cash outflows</b>	<b>189,372,839.68</b>	84,222,454.75
<b>Net cash flows from financing activities</b>	<b>9,687,101.20</b>	(84,222,454.75)
<b>IV. Effect of foreign exchange rate changes on cash</b>	<b>(197,881.71)</b>	(61,835.60)
<b>V. Net increase in cash and cash equivalents</b>	<b>(111,704,982.43)</b>	(29,734,371.54)

# STATEMENT OF CASH FLOW

For the Year of ended 31 December 2005

Form 8-2  
In RMB Yuan

Supplemental Information	2005	2004
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	193,138,751.97	48,761,946.95
Add: Provision for value impairment of assets	(7,109,752.25)	—
Depreciation of fixed assets	3,652,576.93	3,334,302.86
Amortization of intangible assets	—	—
Amortization of long-term prepaid expenses	580,105.42	759,324.26
Decrease in prepaid expenses (less: increase)	—	—
Increase in accrued expenses (less: decrease)	280,164.70	150,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	—	5,742.70
Losses on scrapping of fixed assets	7,828.19	26,959.14
Financial expenses	1,542,864.56	—
Losses on investments (less: gains)	(201,914,521.18)	(62,978,959.10)
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	—	—
Decrease in operating receivables (less: increase)	846,278.53	1,800,677.81
Increase in operating payables (less: decrease)	(1,335,068.58)	1,771,659.99
Others	(80,385.68)	—
<b>Net cash flows from operating activities</b>	<b>(10,391,157.39)</b>	<b>(6,368,345.39)</b>
<b>2. Investing and financing activities that do not involve in cash receipts or payments:</b>		
Conversion of debt into capital	—	—
Convertible bonds due within 1 year	—	—
Fixed assets under finance lease	—	—
<b>3. Net increase in cash and cash equivalents:</b>		
Cash at the end of the period	90,102,690.07	201,807,672.50
Less: Cash at the beginning of the period	201,807,672.50	231,542,044.04
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
<b>Net increase in cash and cash equivalents</b>	<b>(111,704,982.43)</b>	<b>(29,734,371.54)</b>



# NOTES TO THE ACCOUNTINGS 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 January 1 to December 31 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.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 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:

<b>Aging</b>	<b>Provision rate</b>
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.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 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, etc.

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 and accounted for on first-in-first-out basis.

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 a short-term 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.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 10. Long-term Equity Investments

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

The cost method will be applied if the Group holds less than 20% of the voting capital of the investee, or it holds 20% or more of the voting capital of the investee but 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.

Differences between the investment cost and the investor's share of owner's equity of the investee 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 said difference is amortized over a period not more than 10 years. The shortfall of the investment cost over the investor's share of owner's equity of the investee is recorded as capital surplus-Reserve of equity investment.

### 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.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 13. Fixed Assets and Depreciation

Fixed assets include houses and buildings, 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%

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 that 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 obsolesce, 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 when 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.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 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 Costs

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 reach the expected usable condition and recognized as current financial expenses thereafter.

The capitalization amount of borrowing costs shall be the product of weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period multiplied by 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 of completion of the services as well as receiving the revenue or the receipt voucher. 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.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## III. TAXATION AND OTHER ADDITIONAL TAXES

The type and rate of taxes applicable to the Group are 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 the total amount of 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 the stipulations of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, Guangzhou Qixing Pharmaceutical Co., Ltd., a subsidiary of the Group, applies the corporation income tax rate of 24% and local income tax rate of 3%. Being a domestic enterprise, the corporation income tax of Guangzhou Wanglaoji Pharmaceutical Co., Ltd. was 30% from January to February of year 2005, with respectively a 3% local income tax. It was exempted from the aforesaid taxes beginning from March of year 2005 since it received the capital increment injected by Golden Forece Pharmacy Limited and consequently became a joint stock company with limited liabilities and foreign investment who enjoys the preferential tax policy, i.e., from the year beginning to make profit, it is exempted from income tax in the first and second years and allowed a fifty percent reduction from the third to the fifth years. Therefore, Guangzhou Wanglaoji Pharmaceutical Co., Ltd. is exempted from the aforesaid taxes this year.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## IV. SUBSIDIARIES AND JOINT VENTURES

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

Company Name	Registered Place	Paid-in Capital/ Stock (RMB'000)	Actual Investment of the Group to its subsidiaries (RMB'000)	% of Equity Interest (%)	Principal Activities
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	Guangzhou	127,760	93,330	72.96	Research & development of medicine and products of health care
Guangzhou Bio-technology Co., Ltd.	Guangzhou	83,600	80,000	95.69	Research & development of medicine
Guangzhou Huanye Pharmaceutical Co., Ltd.	Guangzhou	6,000	3,580	59.70	Manufacturing chemical materials for 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	112,850	112,850	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	75,030	75,030	100	Trading of Chinese patent medicine and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Corporation	Guangzhou	15,000	15,600	100	Import and export of medicine
Guangzhou Pharmaceutical Ying Bang Trading Co.Ltd.	Guangzhou	18,410	3,890	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



# NOTES TO THE ACCOUNTINGS STATEMENTS

## IV. SUBSIDIARIES AND JOINT VENTURES *(continued)*

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

The Group holds 66% of equity interest in Guangzhou Kangshou Pharmaceutical Co., Ltd. but does not include it in the consolidation as it is being liquidated during the current year.

The Group holds 51% of equity interest in Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. and 50% of Guangzhou Lianjie Computer Technology Co., Ltd. as well as Guangzhou Zhongfu Pharmaceutical Co., Ltd. As the shares on the total of assets, sales and net profit of the both companies owned by the Group are under 10% of the total of assets, sales revenue, and net profit of the Group, they are not included in the consolidation in accordance with the Reply to the Quaere on Scope of Consolidation with reference No. CK2Z(1996)No.2 and the principle of materiality.

### 3 Change in consolidation scope:

In the reporting period, Golden Force Pharmacy Ltd. has made its contribution of RMB168,880,000 to Guangzhou Wanglaoji Pharmaceutical Co., Ltd., according to the signed Warrant to Subscribe, and in return acquired 48.0465% of the equity interest of the company. This increment has changed the Company's share holding proportion in Guangzhou Wanglaoji Pharmaceutical Co., Ltd. from 92.48% to 48.0465%. Therefore, Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has changed its relation with the Company from a holding subsidiary to a joint venture. From the beginning of this reporting period, when preparing the consolidated financial statements, consolidation by proportion instead of full amount is adopted for this investee.

## 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 other agreement, the board of directors is authorized by the shareholders' general meeting to declare and pay interim dividends.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 1. Monetary funds

	Closing Balance	Beginning Balance
Cash in hand	1,304,902.35	1,192,326.45
Cash in bank	610,639,962.83	859,419,351.72
Other monetary funds	5,038,083.82	20,212,919.73
	<u>616,982,949.00</u>	<u>880,824,597.90</u>

#### 1) Breakdown of cash in bank

	Closing Balance	Beginning Balance
Current deposit	525,246,900.83	715,712,994.49
Time deposit	85,393,062.00	143,706,357.23
	<u>610,639,962.83</u>	<u>859,419,351.72</u>

#### 2) Breakdown of other monetary funds

	Closing Balance	Beginning Balance
Out-port bank deposit	51,602.35	51,175.67
Credit card deposit	538,487.09	290,109.98
L / C guaranty deposit	1,458,961.42	4,830,076.94
Bank bill deposit	—	10,165,833.00
Others	2,989,032.96	4,875,724.14
	<u>5,038,083.82</u>	<u>20,212,919.73</u>

3) At the end of the year, the Group held deposit of HKD 2,187,000 (equivalent to RMB 2,275,000) and USD862.81 (equivalent to RMB6,963.65) in Hong Kong.

4) The closing balance of monetary funds decreases by 30% as compared with the beginning balance. The main reason is that the Group has imburded the banking loans of RMB207,562,000 and realised capitalized expenses of RMB124,356,000 (including construction work-in-process and fixed assets).

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 2. Short-term investments

Item	Closing Balance	Write-down Provision	Market price at the year-end
Treasury bond	9,752,600.00	7,802,080.00	—
Fund	10,000,000.00	1,048,000.00	8,952,000.00
	<u>19,752,600.00</u>	<u>8,850,080.00</u>	

- 1) According to the closing price of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on December 31, 2005, the Group made short-term investment provision for the difference between cost and the lower market price.
- 2) The closing balance of short-term investment provision increases by 643.33% as compared with the beginning balance. The main reason is that the par value of the treasure bonds under trusteeship by the Group of Nanfang Security Co., Ltd. is RMB10,000,000 (the book amount is RMB9,752,600). It is acknowledged that Nanfang Security Co., Ltd. was declared to go bankruptcy on April 29, 2005 and the Group has finished the process of creditor's rights registration. In the Group's opinion, there is some uncertainty in full recovery of the above-mentioned treasure bills. Under the circumstances, the Group has accrued provision at 80% of the book value.

### 3. Notes receivable

	Closing Balance	Beginning Balance
Bank acceptance bill	207,972,477.00	62,186,822.02
Trade acceptance bill	123,781,386.41	123,022,778.21
	<u>331,753,863.41</u>	<u>185,209,600.23</u>

The closing balance of notes receivable increases by 79.12% compared with the beginning balance, mainly owing to the enlargement of the Group's business scale and thus more bills are used for settlement.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 4. Dividends receivable

	Closing Balance	Beginning Balance
Dividends receivable from Guangzhou Wanglaoji Pharmaceutical Ltd., Co.	<u>3,709,259.53</u>	<u>—</u>

The closing balance of dividends receivable increases by RMB3,709,259.53 compared with the beginning balance. The reason for this is that the subsidiary company, Guangzhou Wanglaoji Pharmaceutical Co., Ltd., has become a cooperatively run enterprise of the Company after it received the capital increment. Therefore, the dividends receivable comes from consolidation by proportion for this company.

### 5. Accounts receivable

#### 1) Aging analysis of Accounts Receivable

Aging	Closing balance			
	Balance	%	Bad Debt Provision	Provision Proportion
Within 1 year	946,271,187.05	94.19	9,120,741.30	1%
1~2 years	18,585,749.53	1.85	2,328,004.52	12.53%
2~3 years	7,747,640.01	0.77	3,317,116.23	42.81%
3~4 years	11,859,603.02	1.18	10,441,462.88	88.04%
4~5 years	3,182,169.21	0.32	2,662,153.36	83.66%
Over 5 years	17,011,514.23	1.69	17,011,514.23	100.00%
	<u>1,004,657,863.05</u>	100.00	<u>44,880,992.52</u>	4.47%
Aging	Beginning Balance			
	Balance	%	Bad Debt Provision	Provision Proportion
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	1.90	19,333,342.79	100.00%
	<u>1,022,115,715.01</u>	100.00	<u>54,456,273.58</u>	5.33%

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 5. Accounts receivable (continued)

- 2) From the aforementioned balance, no account is due of shareholders with 5% or more voting shares.
- 3) From the aforementioned closing balance, RMB78,656,818.24 is owed by the top five customers with largest amount, representing 7.83% of the total balance.
- 4) The current 370 reversals of accounts receivable amount to RMB9,775,169.93 without any related party transactions.

### 6. Other receivables

- 1) Aging analysis of other receivables:

Aging	Closing balance			
	Balance	%	Bad Debt Provision	Provision Proportion
Within 1 year	15,761,916.68	20.36	300,612.12	1.91%
1~2 years	18,015,695.32	23.27	159,151.77	0.88%
2~3 years	16,811,537.47	21.72	2,830,830.91	16.84%
3~4 years	5,337,371.51	6.90	1,291,900.00	24.20%
4~5 years	9,783,921.53	12.64	1,240,695.60	12.68%
Over 5 years	11,695,042.17	15.11	7,149,398.52	61.13%
	<u>77,405,484.68</u>	100.00	<u>12,972,588.92</u>	16.76%

Aging	Beginning Balance			
	Balance	%	Bad Debt Provision	Provision Proportion
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>	100.00	<u>13,318,944.08</u>	10.65%

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 6. Other receivables (continued)

#### 2) Breakdown of other receivables:

	Closing Balance	Beginning Balance
Petty cash	2,031,221.08	2,268,239.88
Security deposits of all kinds	5,263,331.18	4,217,943.36
Prepayment for projects and equipment	—	11,786,965.97
Advances for operations	12,146,825.16	19,335,088.32
Staff borrowings	392,713.84	245,585.58
Current accounts between related parties	14,770,160.08	23,923,424.79
Suspense payment account	4,491,792.68	9,100,614.52
Discounts and allowance receivables	9,560,522.11	22,523,950.71
Current account with external companies	28,748,918.55	31,699,214.37
	<u>77,405,484.68</u>	<u>125,101,027.50</u>

In the closing balance of other receivable, the amount of dues from shareholder with 5% or more voting shares is that from the Group with an amount of RMB5,059,728.42.

- 3) The five largest amounts of other receivables add up to RMB28,044,738.52 accounting for 36.23% of the total.
- 4) The current 3 reversals of other receivables amount to RMB2,652,774.20 without any related party transactions.
- 5) The closing balance of other receivables decreases by 38.13% compared with the beginning balance, essentially owing to the re-classification of the original "Other Receivables for Prepayment for projects and equipment" to the account of Construction Work-in Process; the pharmaceutical trading entities of the Group has strengthened the reclaim of the receivables, resulting in the great deduction of discount and allowance receivables.

### 7. Advances to suppliers

Among the closing balance, no advance is prepaid to shareholders with 5% or more voting capital.

### 8. Subsidies receivable

	Closing Balance	Beginning Balance
Export tax refundable	<u>3,361,927.18</u>	<u>2,224,155.35</u>

The closing balance of subsidies receivables increases by 51.16% compared with the beginning balance due to the increased export scale of Guangzhou Pharmaceutical Import & Export Corporation, a subsidiary company of the Group, and the export tax refund receivable is increased accordingly.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 9. Inventories

	Closing Balance		Beginning Balance	
	Balance	Provision	Balance	Provision
Material in transit	4,290,795.98	—	1,761,969.43	—
Raw materials	82,530,152.44	43,562.63	84,240,197.29	298,752.78
Work-in-process	110,259,697.64	—	79,290,846.85	—
Finished goods	91,549,539.57	—	95,650,066.82	63,937.84
Low-value				
Consumables	1,482,414.28	—	1,715,469.16	—
Packaging Materials	28,677,577.80	—	32,304,739.81	—
materials on				
consignment for				
further processing	402,807.58	—	181,754.49	—
Consigned goods				
for sale	63,264.17	—	—	—
Goods in stock	830,892,420.41	1,910,664.20	808,089,816.93	24,952,828.40
Others	374,479.02	—	5,414.40	—
	<b>1,150,523,148.89</b>	<b>1,954,226.83</b>	<b>1,103,240,275.18</b>	<b>25,315,519.02</b>

The closing balance of the provision for inventory write-down decreases by 92.28% compared with the beginning balance, mainly because the subsidiary company Guangzhou Chinese Medicine Corporation has scrapped inventory of RMB22,940,000. As the result, the provision for inventory accrued at the end of last year is reversed accordingly.

### 10. Prepaid expenses

	Beginning Balance	Current Addition	Current Amortization	Closing Balance
Prepayments of				
Insurance premium	1,655,791.47	965,929.39	1,879,935.65	741,785.21
Repairment and maintenance				
of fixed assets	—	9,480.20	9,480.20	—
Road toll	203,113.98	281,657.00	414,520.98	70,250.00
Advertising fee	66,000.00	14,226,123.91	789,916.86	13,502,207.05
Deductible input VAT	87,387,622.30	712,885,613.09	694,364,815.48	105,908,419.91
Others	522,904.24	3,247,767.36	3,328,074.29	442,597.31
	<b>89,835,431.99</b>	<b>731,616,570.95</b>	<b>700,786,743.46</b>	<b>120,665,259.48</b>

The closing balance of prepaid expenses increases by 34.32% compared with the beginning balance, due to an ascending business with increment of procurement as well as that of deductible input VAT.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 11. Long-term equity investment

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

Investee	Term	Holding proportion	Initial contribution of investment (Note)
Indonesia Sanyou Industrial Company Limited	2014	50.00%	1,521,562.82
Guangzhou Zhongfu Pharmaceutical Company Limited	N/A	50.00%	400,000.00
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	29.72%	563,046.60
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	—	126,843.02
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
China Everbright Bank	N/A	—	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
Beijing Gugong Gongyuan Cultural Development Co., Ltd	N/A	10.00%	200,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	2005	40.00%	362,826.38
Bank of Communications	N/A	—	393,841.40
Total			<u>81,340,050.55</u>



# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

(2) The movements of long-term equity investment in the current year 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 Jiuhe Tang Chinese Medicine Company Limited	563,046.60	—	—	—	
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	174,407.66	(94,415.41)	(265,592.34)	—	
Guangzhou Jing Xiu Tang 1790 Trading Co.	221,889.71	(33,110.29)	(33,110.29)	—	
Guangzhou Kangshou Pharmaceutical Co., Ltd.	1,555,683.73	(41,699.07)	(904,316.27)	—	
Ming Tai Industrial (Thailand) Company Limited	321,146.49	35,770.93	(195,783.84)	—	
East ChinaPharmaceutical Co., Ltd.	126,843.02	—	—	—	
Guangzhou Lianjie Computer Technology Co., Ltd.	120,576.45	(67,429.01)	(129,423.55)	—	
Guangzhou Chinese Medicine Corporation Beijing Road Chinese Medicine Bazaar	218,399.05	—	58,399.05	—	
Golden Eagle Asset Management Co.	9,757,693.31	(1,782,850.40)	(10,242,306.69)	—	
Jihua Medical Apparatus Company Limited	2,094,885.57	(783,204.82)	(2,105,114.43)	—	
Guangzhou Jinshen Pharmaceutical Co., Ltd.	82,521.47	(311,966.12)	(682,478.53)	—	
China Everbright Bank	10,725,000.00	—	—	—	
Nanhai Nanfang Packaging Co., Ltd.	30,000,000.00	—	—	—	
Guoyao Group Industrial Co., Ltd.	8,000,000.00	—	—	—	
Beijing Gugong Gongyuan Co., Ltd.	200,000.00	—	—	—	
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	—	—	—	
Bank of Communications	393,841.40	—	—	—	
Guangzhou Pangaoshou Natural Health Product Co., Ltd. (Consolidation variance)	971,121.58	—	—	—	2
Guangzhou Huanye Pharmaceutical Co., Ltd. (Consolidation variance)	694,638.83	—	—	—	3
Guangzhou Bio-technology Co., Ltd. (Consolidation variance)	371,059.60	—	—	—	4
Fujian Guangyao Jieda Co.Ltd. (Consolidation variance)	505,520.62	—	—	—	5
Guangxi Ying Kang Pharmaceutical Co., Ltd. (Consolidation variance )	541,378.56	—	—	—	6
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. (Consolidation variance)	744,574.84	—	—	—	7
	<u>71,274,292.40</u>	<u>(3,078,904.19)</u>	<u>(13,894,052.18)</u>	<u>1,078,551.23</u>	

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

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

Notes:

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 according to the principle of prudence.

Note 2: Consolidation variance of Guangzhou Pangaoshou Natural Health Product Co., Ltd. amounts to RMB 971,121.58, 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 attributable 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 upon acquisition over the investment term as stipulated in the contract. The current amortization is RMB 161,853.68 and the accumulated amortization is RMB1,019,764.36.

Note 3: Consolidation variance of Guangzhou Huanye Pharmaceutical Co., Ltd. amounts to RMB 694,638.83, 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 RMB 992,341.19, the current amortization is RMB 99,234.12 and the accumulated amortization is RMB 297,702.36.

Note 4: Consolidation variance of Guangzhou Bio-technology Co., Ltd. amounts to RMB371,059.60, representing the amortized balance of difference between the Company's payments for increment of capital in June 2002, November 2003 and August 2005 respectively and the attributable share of owners' equity acquired in Guangzhou Bio-technology Co., Ltd.. The initial amount is RMB 454,187.62. The current amortization is RMB35,920.22 and the accumulated amortization is RMB83,128.02.

Note 5: Consolidation variance of Fujian Guangyao Jieda Co. Ltd. is RMB505,520.62, 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 July 14, 2004 and the attributable share of owners' equity acquired. The initial amount is RMB586,110.87, the current amortization is RMB56,168.96 and the accumulated amortization is RMB80,590.25.

Note 6: Consolidation variance of Guangxi Ying Kang Pharmaceutical Co., Ltd. is RMB541,378.56, representing the amortized balance of difference between the total payments made by the Company on March 31, 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, the current amortization is RMB65,621.64 and the accumulated amortization is RMB114,837.87.

Note 7: Consolidation variance of Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. is RMB744,574.84, representing the amortized balance of difference between the total payments made by the Company on February 28, 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 RMB91,172.43 and the accumulated amortization is RMB167,149.45.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 12. Fixed assets and accumulated depreciation

Cost	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Houses & buildings	1,049,567,656.89	36,777,631.09	44,617,660.66	1,041,727,627.32
Machinery equipment	713,345,636.41	37,760,295.68	37,698,871.55	713,407,060.54
Vehicles	93,450,972.86	4,816,435.29	7,354,650.48	90,912,757.67
Electric equipment	30,528,185.09	1,683,471.84	790,574.67	31,421,082.26
Office equipment	71,292,462.59	9,207,109.72	4,849,055.51	75,650,516.80
Renovation of Fixed Assets	22,314,450.57	5,228,335.22	6,256,048.68	21,286,737.11
	<u>1,980,499,364.41</u>	<u>95,473,278.84</u>	<u>101,566,861.55</u>	<u>1,974,405,781.70</u>
Accumulated depreciation	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Houses & buildings	197,634,897.89	42,086,120.06	7,840,912.97	231,880,104.98
Machinery equipment	270,071,019.50	49,448,857.76	20,844,782.08	298,675,095.18
Vehicles	59,430,827.23	6,217,673.16	5,172,571.91	60,475,928.48
Electric equipment	15,857,221.76	2,319,107.42	521,315.17	17,655,014.01
Office equipment	33,916,207.86	11,367,868.06	3,444,971.59	41,839,104.33
Renovation of Fixed Assets	6,441,347.88	2,953,889.27	993,150.00	8,402,087.15
	<u>583,351,522.12</u>	<u>114,393,515.73</u>	<u>38,817,703.72</u>	<u>658,927,334.13</u>
Provision for impairment:	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Houses & buildings	18,150,656.61	641,002.56	7,148,301.69	11,643,357.48
Machinery equipment	6,371,146.29	473,669.51	1,263,097.17	5,581,718.63
Vehicles	404,199.51	—	—	404,199.51
Electric equipment	418,427.36	—	153,900.58	264,526.78
Office equipment	8,512.15	—	—	8,512.15
	<u>25,352,941.92</u>	<u>1,114,672.07</u>	<u>8,565,299.44</u>	<u>17,902,314.55</u>

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

- 1) During the year, the amount of construction work in progress transferred into fixed assets is RMB44,026,000
- 2) As at December 31, 2005, the Group has pledged its fixed assets with net value of RMB93,511,000 for bank loans.
- 3) At the year-end, the Group provided impairment provision for the fixed assets of RMB17,902,000 for the difference whose recoverable amount were lower than the book value owing to their technology obsolescence, physical damage or long idleness.
- 4) The closing balance of cost of fixed asset decreases by RMB101,567,000, while the accumulated depreciation decreases by RMB38,818,000 as compared with the beginning balances. The main reason is that the subsidiary company, Guangzhou Wanglaoji Pharmaceutical Ltd., Co., has the increment of investment from a new shareholder in March 2005, and the Company has changed from a controlling shareholder to a joint controlling one. The decrease of cost of fixed assets and accumulated depreciation is induced by using the proportional method for consolidation accordingly.
- 5) According to the appraisal result, the value of the Group's asset in Hongkong has rebounded. Therefore, the impairment provision for fixed assets of RMB7,110,000 is reversed based on the difference between the appraisal value and the lower book value.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 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 Manufacture workshop project at phase 3 rd of Guangzhou Xingqun Pharmaceutical Company	243,688,046.72	Working capital and loan from financial institute	100
Production expansion project for oral liquid of Guangzhou Xingqun Pharmaceutical Company	16,835,778.76	Working capital	100
Relocation of Yunpu workshop of Guangzhou Zhongyi Pharmaceutical Co., Ltd.	6,700,000.00	Working capital	85
Product technical alteration of Guangzhou Chenliji Pharmaceutical Factory	197,030,000.00	Working capital, loan from financial institute and government appropriation	99
Show room of Guangzhou Chenliji Pharmaceutical Factory	29,100,000.00	Working Capital and Stock Capital	80
Conghua base construction of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	4,000,000.00	Working Capital	100
Equipment installation of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	118,840,000.00	Stock capital and government appropriation	93
Suppository production line of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	3,786,349.50	Stock capital and government appropriation	100
	12,821,045.48	Working capital & loan from financial institute	100

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

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

Project	Budget	Financing source	% of fund used to budget
Zhuifengtouguan production line of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	11,339,612.77	Working capital & loan from financial institute	100
GMP improvement project of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	30,300,000.00	Working capital & loan from financial institute	100
GMP improvement project of Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	104,910,000.00	Loan from financial institute and special fund from treasury bond	102
Payment for 29th F and parking place of Wuyang xincheng Plaza	8,404,709.58	Working capital	50
ERP update project	2,438,268.86	Working capital	51
GMP Project of Guangzhou Chinese Medicine Corporation, Chinese Medicine Factory	5,000,000.00	Working capital	89
Equipment installation A of Guangzhou Bio-technology Co., Ltd.	3,000,000.00	Government appropriation	64
Equipment installation B of Guangzhou Bio-technology Co., Ltd.	8,000,000.00	Working capital	117
Solid preparation workshop project of Guangzhou Huanye Pharmaceutical Co., Ltd.	4,738,900.00	Working capital	100
GMP reconstruction project of Guangxi Ying Kang Pharmaceutical Co., Ltd.	23,000,000.00	Working capital	95
Warehouse project of Guangzhou Qixing Pharmaceutical Co., Ltd.	6,000,000.00	Working Capital	—
Others	5,645,512.87	—	—

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

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

Project	Beginning Balance	Current Addition	Transferred to fixed asset	Other Reduction	Closing Balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	288,853.15	5,600,603.32	4,575,482.66	265,957.15	1,048,016.66
Manufacture workshop project at phase 3 rd of Guangzhou Xingqun Pharmaceutical Company	3,952,497.79	2,460,295.63	—	6,207,173.98	205,619.44
Production expansion project for oral liquid of Guangzhou xinqun Pharmaceutical Company	—	5,688,084.20	—	—	5,688,084.20
GMP improvement project on expansion project of grain of Guangzhou Xingqun Pharmaceutical Company	—	4,188,115.99	—	—	4,188,115.99
Relocation of Yunpu workshop of Guangzhou Zhongyi Pharmaceutical Co., Ltd.	836,849.63	8,992,600.72	3,247,176.98	1,748,582.70	4,833,690.67
Product technical alteration of Guangzhou Chenliji Pharmaceutical Factory	773,473.64	3,126,689.39	2,472,528.36	292,056.10	1,135,578.57
Show room of Guangzhou Chenliji Pharmaceutical Factory	83,561.00	126,871.84	210,432.84	—	—
Conghua base construction of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	89,747,009.74	21,144,798.50	—	—	110,891,808.24
Equipment installation of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	318,444.00	—	298,044.00	—	20,400.00
Prepayment for equipment of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	2,343,821.21	2,298,459.95	4,119,393.94	—	522,887.22
Suppository production line of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	1,690,000.00	—	1,690,000.00	—	—
Zhuifengtouguwan production line of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	647,400.00	70,000.00	717,400.00	—	—

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

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

Project	Beginning Balance	Current Addition	Transferred to fixed asset	Other Reduction	Closing Balance
GMP improvement project of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	1,210,000.00	4,305,601.45	5,515,601.45	—	—
Sewage treatment pool of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	558,281.00	—	558,281.00	—	—
Other projects of of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	698,861.23	—	698,861.23	—	—
GMP improvement project of Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	2,572,916.00	4,839,186.85	4,608,814.85	—	2,803,288.00
Payment for 29th F and parking place of Wuyang xincheng Plaza	—	4,202,354.79	—	—	4,202,354.79
ERP updated project	—	1,251,104.64	—	—	1,251,104.64
GMPproject of Guangzhou chinese Medicine Corporation Chinese Medicine Factory	458,325.55	1,488,318.19	1,865,612.04	—	81,031.70
Equipment installation A of Guangzhou Bio-technology Co., Ltd.	2,303,100.00	—	2,303,100.00	—	—
Equipment installation B of Guangzhou Bio-technology Co., Ltd.	4,327,672.64	8,646,124.79	3,597,443.84	2,500.00	9,373,853.59
Solid preparation workshop project of Guangzhou Huanye Pharmaceutical Co., Ltd.	1,252,800.20	100,000.00	1,352,800.20	—	—
GMP reconstruction project of Guangxi Ying Kang Pharmaceutical Co., Ltd.	645,990.00	414,680.00	690,490.00	—	370,180.00
Warehouse project of Guangzhou Qixing Pharmaceutical Co., Ltd.	2,202,351.19	3,993,356.67	—	—	6,195,707.86
Others	2,862,867.13	11,809,648.48	5,504,727.67	1,939,103.99	7,228,683.95
	<u>119,775,075.10</u>	<u>94,746,895.40</u>	<u>44,026,191.06</u>	<u>10,455,373.92</u>	<u>160,040,405.52</u>



# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

- 3) The closing balance of construction work in progress increases by 33.62% compared with the beginning balance, mainly resulting from increasing the capital contribution of RMB21,145,000 on the Conghua base construction of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd., RMB8,646,000 on the rabies bacterin project (equipment installation B of Guangzhou Bio-technology Co., Ltd.), RMB5,688,000 on the Expansion Project for Oral liquid Production of Guangzhou Xingqun Pharmaceutical Company, and RMB4,188,000 on the GMP restrustion project on expansion project of grain of Guangzhou Xingqun Pharmaceutical Company.
- 4) The Group have made provision for impairment for Zhong Yi dust removing project in a full amount of RMB80,000 and that for Jingxiutang Anbike equipment installation in a full amount of RMB50,000 in the current year because the said projects have been suspended for a long time and may not be resumed in the foreseeable future. The total amount of provision for impairment is RMB130,000 conequently.
- 5) The amount of capitalized interest expenses included in construction work in progress is zero (beginning balance: RMB3,746,000).
- 6) Some construction work in progress have been re-classified during the current year, the reclassified reduction accordingly is reflected as "other reduction".

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 14. Intangible assets

1) Details of intangible assets are as follows:

Item	Acquisition Way	Cost	Provision for Impairment	Remaining amortization month
Land use right of new workshop at Nanzhou Road	Purchase	4,301,046.00	—	480
Land use right of former workshop at Renmin Road	Purchase	2,686,602.00	—	480
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,600,547.00	—	450
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3 of Zhongshanba Road	Purchase	1,392,144.00	—	175
Land use right of Guangzhou Yunpu Industry District	Purchase	2,255,182.58	—	559
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	—	509
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	—	500
Land use right of Songgang Factory	Purchase	3,861,957.56	—	456
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	—	445
Land use right of Panyu Dongsha Development Distric	Purchase	15,947,019.00	—	480
Land use right of Jiangcun workshop in Guangzhou Baiyun District	Purchase	1,916,553.13	—	498
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	Purchase	3,509,041.00	—	379
Land use right of No. 136-138 of He Ping West Road	Purchase	1,535,744.00	—	379
Land use right of No.328 in Beijing Road	Purchase	1,306,988.00	—	78
Land use right of No.103 of Da Tong Road	Land appraisal appreciation	17,928,863.00	—	379
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	480,700.24	479
Land use right of No.85 of Shang Jiu Road	Purchase	2,973,460.00	—	408

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 14. Intangible assets (continued)

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

Item	Acquisition Way	Cost	Provision for Impairment	Remaining amortization month
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	—	497
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	Investment	3,315,488.00	—	516
Land use right of No. 5 of Panyu Dongsheng District	Purchase	2,896,279.62	—	456
Malotilate emulsion technology	Purchase	1,500,000.00	—	93
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	Purchase	5,081,734.55	—	41
Trademark of Guangzhou Pharmaceutical	Investment	3,807,722.31	—	103
Marketing network and trademark of Hubei Ankang Co.	Investment	1,200,000.00	—	99
Others		10,339,733.57	485,451.22	8~636
		<u>127,255,524.22</u>	<u>966,151.46</u>	

The closing balance of provisions for impairment of intangible assets is RMB966,151.46 accrued at the difference of the carrying amount and the lower recoverable amount by the Group.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 14. Intangible assets (continued)

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

Item	Beginning Balance	Current Addition	Current Decrease	Current Amortization	Accumulated Amortization	Closing Balance
Land use right of new workshop at Nanzhou Road	3,698,500.63	—	—	88,377.66	690,923.03	3,610,122.97
Land use right of former workshop at Renmin Road	2,255,927.58	—	—	54,828.61	485,503.03	2,201,098.97
Land use right of No.19-29 of Ningxiheng Street	1,339,654.36	—	—	34,420.37	295,313.01	1,305,233.99
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili	—	—	—	—	—	—
No. 3 of Zhongshanba Road	1,133,132.00	—	—	68,664.00	327,676.00	1,064,468.00
Land use right of Guangzhou Yunpu Industry District	2,208,763.73	—	—	46,418.87	92,837.72	2,162,344.86
Land use right of No. 194 of Beijing Road	2,056,645.53	—	—	47,251.62	353,187.17	2,009,393.91
Land use right of No. 1688 of Southern Guangzhou Avenue	23,045,268.40	—	—	540,123.48	4,501,029.00	22,505,144.92
Land use right of Songgang Factory	1,731,006.97	—	—	44,384.76	2,175,335.35	1,686,622.21
Land use right of Nanhai Huangqi	3,146,996.42	—	—	82,634.52	1,025,638.10	3,064,361.90
Land use right of Panyu Dongsha Development District	13,413,987.62	—	—	318,940.38	2,851,971.76	13,095,047.24
Land use right of Jiangcun workshop in Guangzhou Baiyun District	3,012,218.73	—	1,528,127.70	70,875.72	503,337.82	1,413,215.31
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	3,090,168.75	—	—	94,839.00	513,711.25	2,995,329.75
Land use right of No. 136-138 of He Ping West Road	1,352,423.36	—	—	41,506.56	224,827.20	1,310,916.80
Land use right of No.328 in Beijing Road	1,067,373.68	—	—	32,674.68	272,289.00	1,034,699.00
Land use right of No.103 of Da Tong Road	14,296,865.36	—	—	495,272.40	4,127,270.04	13,801,592.96

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 14. Intangible assets (continued)

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

Item	Beginning Balance	Current Addition	Current Decrease	Current Amortization	Accumulated Amortization	Closing Balance
Land use right of B area of Xin Zhou Warehouse	2,222,527.54	—	—	42,483.60	496,097.06	2,180,043.94
Land use right of No.85 of Shang Jiu Road	2,380,132.74	—	—	66,076.92	659,404.18	2,314,055.82
Land use right of No.12 of Fangcun Sai Ba Road	1,498,240.99	—	—	35,290.44	301,572.35	1,462,950.55
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	1,544,653.44	—	—	35,105.76	1,805,940.32	1,509,547.68
Land use right of No. 5 of Panyu Dongsheng District	2,206,637.90	—	—	60,781.20	750,422.92	2,145,856.70
Malotilate emulsion technology	1,312,500.00	—	—	150,000.00	337,500.00	1,162,500.00
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	4,463,421.12	338,805.00	—	1,018,152.95	1,297,661.38	3,784,073.17
Trademark of Guangzhou Pharmaceutical	3,649,067.21	—	—	380,772.24	539,427.34	3,268,294.97
Marketing network and trademark of Hubei Ankang Co.	1,110,000.00	—	—	120,000.00	210,000.00	990,000.00
Others	7,075,367.15	1,169,964.00	—	678,411.51	2,772,813.93	7,566,919.64
	<u>104,311,481.21</u>	<u>1,508,769.00</u>	<u>1,528,127.70</u>	<u>4,648,287.25</u>	<u>27,611,688.96</u>	<u>99,643,835.26</u>

During the current year, the intangible assets decreases by RMB1,528,000. The reason is that Guangzhou Wangdlaoji 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 controlling one and the decrease is induced by using the proportional method for consolidation.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 15. Long-term Prepayments

1) Details of long-term prepayments are as follows:

Item	Amortization period	Cost	Remaining amortization period
Renovation	5 Years	37,238,975.25	1 to 5 years
Installation of telephone	5 Years	2,756,400.00	Within 1 year
Maintenance expenditure on fixed assets	5 Years	7,162,070.45	Finished
ERP system	5 Years	6,187,246.25	1 to 5 years
Computer system	5 Years	2,159,248.00	1 to 5 years
GMP project improvement	5 Years	2,501,945.78	1 to 5 years
Medical fund for retired staff	5 Years	2,414,500.00	Within 1 year
Transitional medical fund for retired staff	10 Years	3,049,676.46	6 years and 8 months
CI Design	10 Years	264,800.00	10 years
Chinese-medicine protection fee of Weichangning	7 Years	553,679.70	7 years
Others	2-5 years	4,338,089.21	1 to 5 years
		<u>68,626,631.10</u>	

2) The movements of long-term prepayments during the current year are as below:

Item	Beginning Balance	Current Addition	Current Amortization	Accumulated Amortization	Closing Balance
Renovation	12,567,927.51	2,421,222.49	6,614,923.67	28,864,748.92	8,374,226.33
Installation of telephone	59,059.30	—	46,899.96	2,744,240.66	12,159.34
Maintenance expenditure on fixed assets	688,834.40	—	688,834.40	7,162,070.45	—
ERP system	1,224,036.86	360,480.00	757,017.46	5,359,746.85	827,499.40
Computer system	646,737.57	608,000.00	550,493.97	1,455,004.40	704,243.60
GMP project improvement	169,201.06	545,849.82	257,543.86	2,044,438.76	457,507.02
Medical fund for retired staff	497,775.01	—	384,991.92	2,301,716.91	112,783.09
CI Design	2,341,903.90	—	382,486.56	1,090,259.12	1,959,417.34
Transitional medical fund for retired staff	—	264,800.00	—	—	264,800.00
Chinese-medicine protection fee of Weichangning	—	553,679.70	—	—	553,679.70
Others	1,020,352.03	1,760,764.00	1,015,849.16	2,572,822.34	1,765,266.87
	<u>19,215,827.64</u>	<u>6,514,796.01</u>	<u>10,699,040.96</u>	<u>53,595,048.41</u>	<u>15,031,582.69</u>

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 16. Short-term loans

	Closing Balance	Beginning Balance
Loan by credit	45,586,020.00	25,000,000.00
Loan by mortgage and pledge	254,199,348.60	255,958,830.03
Loan by guaranty	568,000,000.00	656,500,000.00
	<u>867,785,368.60</u>	<u>937,458,830.03</u>

### 17. Notes payable

Item	Closing Balance	Beginning Balance
Bank acceptance bill	34,728,030.03	118,321,134.12
Trade acceptance bill	51,280,033.35	18,731,700.00
	<u>86,008,063.38</u>	<u>137,052,834.12</u>

The closing balance of notes payable decreases by 37.24% compared with the beginning balance, mainly because the Group reduces the using of notes as payment at the end of the current year.

### 18. Accounts payable

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

### 19. Advances from customers

Within the closing balance, no advances is paid by the shareholders with 5% or more voting shares.

The closing balance of advances from customers increases by 35.93% compared with the beginning balance, mainly because the pharmaceutical trading companies of the Group requires the customers for advanced payment before delivery of goods for the newly agential goods.

### 20. Dividend payable

	Closing Balance	Beginning Balance
Dividend to minor shareholders	1,753.52	402.84
Dividend to overseas public shares	24,739.37	25,980.20
	<u>26,492.89</u>	<u>26,383.04</u>

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 21. Taxes payable

	Closing Balance	Beginning Balance
Business tax	537,448.97	796,463.34
Value added tax	(7,110,797.17)	(14,616,004.43)
City construction tax	933,086.59	924,123.73
Enterprise income tax	25,360,418.09	34,683,091.24
Property tax	335,299.76	329,787.24
Withholding tax	4,111,600.03	179,472.81
Others	210,357.34	1,744,310.13
	<u>24,377,413.61</u>	<u>24,041,244.06</u>

### 22. Other liabilities

	Note	Closing Balance	Beginning Balance
Education surcharge	(1)	402,995.72	414,328.26
Flood prevention levy	(2)	3,175,229.22	2,460,718.34
Others		50,432.72	5,346.34
		<u>3,628,657.66</u>	<u>2,880,392.94</u>

*Notes:*

- (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.



# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 23. Other Payables

1) Breakdown for closing balance of other payables:

Items	Closing Balance	Beginning Balance
Security money, deposit and down payment	14,442,530.49	18,950,775.59
Technology improvement	2,348,999.17	1,235,485.85
Labor union fund	1,739,109.68	1,102,973.38
Staff education fund	11,878,877.69	10,924,318.13
Current accounts with external companies	32,182,833.66	36,085,243.34
Tax addition and government levies	292,400.67	334,210.29
Advance from staff	2,005,242.03	1,311,990.10
Labor insurance	1,208,250.77	913,448.63
Monetary subsidies of staff housing	19,276,096.54	10,399,116.96
Staff bonus and welfare fund	2,460,141.54	1,179,049.39
Payables to Guangzhou Pharmaceutical Holdings Limited	25,468,086.39	27,428,199.47
Payables to Bank of Communications Guangzhou Branch (Collected on behalf)	58,923,524.00	122,438,765.67
Operator incentive fund	1,672,340.18	2,328,249.35
Estimated payment for fixed assets	6,880,152.57	12,560,604.18
Others	10,365,613.63	18,380,027.46
	<b>191,144,199.01</b>	<b>265,572,457.79</b>

2) Among the closing balance, the amount payable to the shareholder who holds 5% or more voting shares is RMB25,468,086.39, which is payable to the Holding.

### 24. Accrued expenses

Items	Closing Balance	Beginning Balance
Interest on loan	1,255,628.75	1,242,290.73
Rental	1,836,899.84	1,548,786.28
Agency expenses	2,430,164.70	2,150,000.00
Advertising expenses	3,835,218.44	1,802,639.86
Transportation costs	673,397.84	533,009.96
Electricity and water costs	759,970.24	—
Others	3,428,821.77	1,954,555.37
	<b>14,220,101.58</b>	<b>9,231,282.20</b>

The closing balance of accrued expenses increases by 54.04% compared with the beginning balance, mainly because the increase of unpaid but implemented advertising expenses.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 25. Long-term liabilities due within one year

Item	Closing Balance	Beginning Balance
Loan by credit	50,000,000.00	20,000,000.00
Loan by guaranty	—	27,680,000.00
	<u>50,000,000.00</u>	<u>47,680,000.00</u>

### 26. Long-term loans

Lender	Terms	Closing Balance	Beginning Balance
Industrial and Commercial Bank of China Guangzhou 1st Sub-branch	2004.01.05-2006.01.04	—	20,000,000.00
Industrial and Commercial Bank of China Guangzhou 1st Sub-branch	2004.07.08-2006.07.07	—	10,000,000.00
Industrial and Commercial Bank of China Guangzhou 1st Sub-branch	2004.08.05-2006.08.04	—	20,000,000.00
Industrial and Commercial Bank of China Guangzhou Shisanhang Sub-branch	2003.01.06-2006.01.02	—	59,500,000.00
		<u>—</u>	<u>109,500,000.00</u>

The closing balance of long-term loans decreases by RMB109,500,000, essentially because RMB50,000,000 of long-term loans is transferred to the account of "due within one year" and; the Group strengthens the control and application of capital, resulting in making repayments to the bank in advance.

### 27. Long-term payables

	Content	Closing Balance	Beginning Balance
Guangzhou Finance Bureau	State dividends	2,170,889.31	2,170,889.31
Finance Department of Guangxi Zhuang Municipality	Payable for transferring equity interest	2,264,426.47	2,264,426.47
Others		281,412.43	584,696.78
		<u>4,716,728.21</u>	<u>5,020,012.56</u>

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 28. Special payables

	Closing Balance	Beginning Balance
Government appropriations as science and technology fund	45,758,891.04	25,968,096.13
Interest subsidies of government	3,286,905.00	6,556,318.78
Special fund for technology export	506,678.78	645,757.00
GMP relocation project-draining project	556,874.56	640,000.00
	<u>50,109,349.38</u>	<u>33,810,171.91</u>

The closing balance of special payables increases by 48.21% 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 RMB15,000,000 appropriated from government for the modernization project of Chinese traditional medicine's separation and distillation.

### 29. Share capital

Name of shareholder	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Shares owned by the State	513,000,000.00	—	—	513,000,000.00
Domestic common shares	78,000,000.00	—	—	78,000,000.00
Overseas common shares	219,900,000.00	—	—	219,900,000.00
	<u>810,900,000.00</u>	<u>—</u>	<u>—</u>	<u>810,900,000.00</u>

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

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 30. Capital surplus

	Beginning Balance	Current Increase	Current Decrease	Closing Balance	Note
Share premium	914,006,770.47	—	—	914,006,770.47	
Reserve of donation in form of non-cash assets	2,164,769.48	440,280.48	—	2,605,049.96	2
Receipt of cash donation	219,652.84	—	—	219,652.84	
Reserve of equity investment	215,256.10	18,900,519.82	—	19,115,775.92	1
Transfer from appropriations	17,869,114.37	1,334,850.00	—	19,203,964.37	3
Other capital surplus	191,531,969.00	2,396,680.01	—	193,928,649.01	4
Exchange gain on foreign currency capital	373,893.09	—	—	373,893.09	
	<u>1,126,381,425.35</u>	<u>23,072,330.31</u>	<u>—</u>	<u>1,149,453,755.66</u>	

The current increase of capital surplus amounts to RMB23,072,000, mainly resulting from:

- 1) Guangzhou Wanglaoji Pharmaceutical Co., Ltd., a subordinate company of the Company, receives its increment capital in year 2005. The surplus on contribution from the new shareholder is recorded as capital surplus, the Company shares RMB18,893,000 of reserve of equity investment in accordance with its holding proportion of the equity interest.
- 2) The Group receives RMB440,000 of donation in form of non-cash assets;
- 3) Upon the completion of research and development projects, the governmental appropriation of RMB1,335,000 is transferred from special payables to capital surplus.;
- 4) RMB2,397,000 of payables that need not be repaid is recorded as capital surplus.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 31. Surplus reserve

	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Statutory surplus reserve	216,051,925.08	41,172,873.07	3,454,545.30	<b>253,770,252.85</b>
Statutory public welfare fund	153,572,065.40	28,896,962.62	3,007,452.46	<b>179,461,575.56</b>
Discretionary surplus reserve	105,844,905.71	26,647,658.28	3,454,545.30	<b>129,038,018.69</b>
Transfer from tax exemption	4,973,493.07	—	—	<b>4,973,493.07</b>
	<u>480,442,389.26</u>	<u>96,717,493.97</u>	<u>9,916,543.06</u>	<u><b>567,243,340.17</b></u>

The increment mainly represents the surplus reserve accrued based on the current net profit. According to the resolution of 21st Session of the 3rd meeting of the Board of Directors, the Company accrues statutory surplus reserve and statutory public welfare fund at the rate of 10% and 5% of the profit after tax respectively; the manufacturing enterprises subordinate to the Company accrue statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve at the rate of 10% of the profit after tax; the commercial enterprises subordinate to the Company accrue statutory surplus reserve and statutory public welfare fund at the rate of 10% of the profit after tax and discretionary surplus reserve at the rate of 20% of the profit after tax.

In March 2005, the subsidiary, Guangzhou Wanglaoji Pharmaceutical Co., Ltd. receives its capital increment by a new shareholder. The Company becomes a joint controlling shareholder from a controlling one. Consolidation for this investee adopts proportion method thus the surplus reserve decreases.

### 32. Retained earnings

- 1) Please refer to Statement Form 3 for the details of retained earnings.
- 2) The profit distribution policy of the Group is stated in Note V.
- 3) In accordance with the dividends allocation plan for the year 2004, the Company allocated RMB0.025 per share. Therefore the total dividends allocated for the year 2004 in 2005 summed up to RMB20,272,500 at the total share of RMB810,900,000.

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 33. Sales from principle operations

	2005	2004
1) Manufacturing and selling	<u>2,141,675,546.01</u>	<u>1,918,980,048.34</u>
2) Trading		
Wholesale	<u>6,345,287,623.97</u>	5,339,957,051.24
Retail	<u>318,669,363.09</u>	278,829,765.91
Import & export sales	<u>220,707,900.43</u>	<u>170,546,723.85</u>
	<u>6,884,664,887.49</u>	5,789,333,541.00
	<u>9,026,340,433.50</u>	<u>7,708,313,589.34</u>

The total sales from the top 5 customers is RMB572,597,610, representing 6.34% of the total sales.

### 34. Cost of principle operations

	2005	2004
1) Manufacturing and selling	<u>1,025,242,616.80</u>	913,873,690.79
2) Trading		
Wholesale	<u>5,987,651,996.27</u>	5,017,472,309.13
Retail	<u>254,472,428.57</u>	222,519,682.36
Import & export sales	<u>205,607,290.53</u>	<u>158,195,834.42</u>
	<u>6,447,731,715.37</u>	5,398,187,825.91
	<u>7,472,974,332.17</u>	<u>6,312,061,516.70</u>

### 35. Sales taxes and levies

	2005	2004
Business tax	<u>330,591.43</u>	557,779.55
City construction tax	<u>17,011,021.98</u>	16,157,433.46
Education surcharge	<u>7,234,655.10</u>	6,982,199.89
Others	<u>37,642.30</u>	<u>65,564.78</u>
	<u>24,613,910.81</u>	<u>23,762,977.68</u>

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 36. Profit from other operations

	2005	2004
1) Revenue from other operations		
Lease of Assets	<b>38,439,132.25</b>	35,179,740.42
Sales of material	<b>1,179,133.28</b>	2,426,392.37
Import and export agency charges	<b>370,322.72</b>	808,543.96
Income of member stores	<b>358,055.79</b>	504,770.00
Products promotion income	<b>1,801,944.10</b>	1,270,174.85
Revenue from trademark	<b>898,860.94</b>	—
Consultancy income	<b>3,289,521.74</b>	6,025,372.16
Others	<b>4,793,912.00</b>	2,624,618.40
	<b>51,130,882.82</b>	48,839,612.16
2) Cost of other operations		
Lease of Assets	<b>333,802.26</b>	522,621.82
Sales of material	<b>857,670.11</b>	2,209,781.58
Tax and sur-tax	<b>5,580,864.82</b>	6,370,121.98
Others	<b>1,057,014.22</b>	729,351.96
	<b>7,829,351.41</b>	9,831,877.34
Profit from other operations	<b>43,301,531.41</b>	39,007,734.82

### 37. Financial expenses

	2005	2004
Net interest expenses	<b>35,737,583.80</b>	28,489,449.02
Exchange loss or gain	<b>(304,387.58)</b>	120,280.90
Financial institution charges	<b>7,665,275.35</b>	9,767,289.44
Others	—	(504,440.71)
	<b>43,098,471.57</b>	37,872,578.65

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 38. Investment income

	2005	2004
Stock investment	—	759,370.43
Bond investment	—	(610,416.07)
Gain from consignment loan	<b>(517,355.66)</b>	0.00
Fund investment	—	1,519,857.39
Profit from associate enterprises or joint-ventures	<b>3,705,374.86</b>	588,950.94
Net increase or decrease of stock investment under equity method	<b>(3,596,294.73)</b>	(5,606,623.16)
Provision for impairment of investment	<b>(7,659,480.00)</b>	(864,037.18)
Disposal income of equity investment	<b>4,674.88</b>	(522,942.99)
	<b><u>(8,063,080.65)</u></b>	<b><u>(4,735,840.64)</u></b>

The current investment income decreases by 70.26% compared with that of last year, mainly because the provision for impairment of the treasury bonds which is under trusteeship to Nanfang Security Co., Ltd. is accrued at RMB7,659,000. Please refer to the afore note 2 of "short-term investment" for details.

### 39. Non-operating income

	2005	2004
Net profit from disposal of fixed assets	<b>744,260.39</b>	319,588.41
Sales of obsolete material	<b>66,348.00</b>	106,612.10
Fine and overdue	<b>114,005.09</b>	131,847.34
Compensation for dismantling	<b>490,216.73</b>	5,168,043.24
Fixed asset surplus	<b>3,754,778.00</b>	—
Other	<b>1,024,904.10</b>	1,112,504.44
	<b><u>6,194,512.31</u></b>	<b><u>6,838,595.53</u></b>



# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 40. Non-operating expenses

	2005	2004
Net loss on disposal of fixed assets	1,554,441.54	3,501,684.15
Provision for impairment of assets	1,114,672.07	1,173,262.40
Reversal of impairment provision of fixed assets	<b>(6,642,181.93)</b>	—
Donation	1,460,141.69	1,699,748.23
Fine and overdue	1,119,962.03	3,460,024.60
Family control bonus	595,462.83	529,902.76
Penal sum	—	7,429,418.74
Sponsoring expense	676,228.88	—
Dimission compensation	336,611.40	—
Others	209,487.63	676,321.31
	<b>424,826.14</b>	<b>18,470,362.19</b>

The current non-operating expenses decrease by 97.70% compared with those of last year, mainly because the value of the Group's asset in Hongkong has rebounded, thus, the provision for the impairment of fixed assets of RMB7,710,000 has been reversed according to the difference between the appraisal value and the lower book value. After deducting the complementary depreciation, the final influence of this account RMB6,642,000.

### 41. Extraordinary gain or loss

	2005	2004
Gain or loss from disposal of long-term equity investment	<b>(805,506.27)</b>	(3,705,038.73)
Government subsidies	720,456.65	588,921.00
Gain or loss from short-term investment	<b>(7,659,480.00)</b>	631,511.75
Other non-operating expenses than provision for assets impairment	1,052,367.46	(7,276,408.52)
Gain or loss of consignment investment	<b>(517,355.66)</b>	—
Reversal of provision for impairment accrued in previous years	6,642,181.93	457,240.47
Impact of income tax	<b>(553,380.03)</b>	983,268.09
Impact of minority interest	40,798.26	442,510.49
	<b>(1,079,917.66)</b>	<b>(7,877,995.45)</b>

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

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

Main items	Amount RMB'000
Non-operating income	2,440
Interest income	9,329
Financial special appropriations	17,969
Income from other operations	49,825

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

Main items	Amount RMB'000
Operating expenses paid in cash	412,684
General & administration expenses paid in cash	252,450
Charges of financial institutions	7,665

## 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 December 31, 2005

Aging	Closing balance			
	Balance	%	Bad debts Provision	Provision Proportion
Within 1 year	5,777,788.87	3.45	—	—
1~2 years	5,098,010.89	3.04	—	—
2~3 years	33,870,656.54	20.23	—	—
3~4 years	50,644,000.00	30.25	—	—
4~5 years	21,498,596.76	12.84	—	—
Over 5 years	50,544,562.54	30.19	502,043.54	0.99%
	<u>167,433,615.60</u>	100.00	<u>502,043.54</u>	0.30%

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 1. Other receivables (continued)

Aging	Beginning balance		Bad debts Provision	Provision Proportion
	Balance	%		
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>	100	<u>502,043.54</u>	0.15%

Among the aforesaid balance, receivables due from shareholders holding 5% or more voting shares represent the current accounts between the Group and the Company with an amount of RMB4,344,000.

### 2. Long-term equity investments

Name of investee	Original investment	Accumulated Stock proportion to the investee	Increase (Decrease) of the equity	Closing Balance
Guangzhou Xingqun Pharmaceutical Co., Ltd.	125,322,318.71	88.99%	66,793,531.58	192,115,850.29
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	156,209,321.79	90.36%	191,341,796.55	347,551,118.34
Guangzhou Chenlijii Pharmaceutical Factory	117,310,759.19	100.00%	105,438,385.43	222,749,144.62
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	89,480,000.00	70.04%	(21,281,490.65)	68,198,509.35
Guangzhou Qixing Pharmaceutical Factory	126,775,482.62	100.00%	55,501,731.50	182,277,214.12
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,814.94	88.40%	(7,961,002.08)	93,528,812.86
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	144,298,132.51	87.77%	15,767,805.02	160,065,937.53
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	102,035,124.44	48.05%	65,275,896.46	167,311,020.90
Guangzhou Pharmaceuticals Corporation	230,189,155.53	90.09%	163,354,957.60	393,544,113.13

# NOTES TO THE ACCOUNTINGS STATEMENTS

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

### 2. Long-term equity investments (continued)

Name of investee	Original investment	Accumulated Stock proportion to the investee	Increase (Decrease) of the equity	Closing Balance
Guangzhou Chinese Medicine Corporation	74,378,883.83	100.00%	(54,256,639.68)	20,122,244.15
Guangzhou Pharmaceutical Import & Export Corporation	18,557,328.73	100.00%	4,512,921.74	23,070,250.47
Guangzhou Bio-Technology Co., Ltd.	80,000,000.00	95.69%	(22,046,659.93)	57,906,132.27
Guangzhou Huanye Pharmaceutical Co., Ltd.	15,331,246.76	59.70%	51,288.02	15,184,066.54
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	3,888,713.99	51.00%	837,302.53	4,650,039.50
Guangxi Ying Kang Pharmaceutical Co., Ltd.	21,717,000.00	51.00%	(4,867,703.61)	16,800,080.16
Golden Eagle Asset Management Co.	20,000,000.00	20.00%	(10,242,306.69)	9,757,693.31
Jihua Medical Apparatus Company Limited	4,200,000.00	24.00%	(2,105,114.43)	2,094,885.57
Guangzhou Jinshen Pharmaceutical Co., Ltd.	765,000.00	38.25%	(682,478.53)	82,521.47
China Everbright Bank	10,725,000.00	—	—	10,725,000.00
Nanhai Nanfang Packing Company Limited	30,000,000.00	21.42%	—	30,000,000.00
Guoyao Group Industry Corporation	8,000,000.00	10.00%	—	8,000,000.00
Beijing Gugong Gongyuan Cultural Development Co., Ltd	200,000.00	10.00%	—	200,000.00
Total	<u>1,480,873,283.04</u>		<u>545,432,220.83</u>	<u>2,025,934,634.58</u>

### 3. Investment income

	2005	2004
Stock investment	—	759,370.43
Bond investment	—	(610,416.07)
Gain from consignment loan	<b>8,411,445.27</b>	—
Fund investment	—	1,519,857.39
Profit form associate enterprises or joint-ventures	<b>3,383,850.00</b>	181,500.00
Net increase or decrease of equity investment under equity method	<b>197,778,705.91</b>	62,165,947.35
Provision for impairment of investment	<b>(7,659,480.00)</b>	(1,037,300.00)
	<u><b>201,914,521.18</b></u>	<u>62,978,959.10</u>

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### 1. Related parties with control relationship

Company name	Registered address	Principal business	Relation-ship with the Company	Economic nature and type	Legal representative
Guangzhou Pharmaceutical Holdings 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	State-owned holding company	Li Guoju
Guangzhou Qixing Pharmaceutical Factory	No. 33, Chigang North Street, Xingang Central Road, Guangzhou	Production and sales	Subsidiary	State-owned holding company	Wen Xinmin
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 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	State-owned holding company	Xie Bin

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 1. Related parties with control relationship *(continued)*

Company name	Registered address	Principal business	Relation-ship with the Company	Economic nature and type	Legal representative
Guangzhou Pharmaceutical Import & Export Corporation	No. 59, Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	State-owned holding company	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. 193, Changgang Road, Nanning, Guangxi	Production and sales	Subsidiary	Company with limited liability	He Shuhua

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

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

*RMB '000*

Company name	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Guangzhou Pharmaceutical Holdings Limited	1,007,700	—	—	1,007,000
Guangzhou Xingqun Pharmaceutical Co., Ltd.	77,170	—	—	77,170
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	—	—	166,000
Guangzhou Chenliji Pharmaceutical Factory	94,000	18,850	—	112,850
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 Pharmaceuticals Corporation	222,000	—	—	222,000
Guangzhou Chinese Medicine Corporation	69,700	5,330	—	75,030
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	13,500	—	83,600
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	18,410	—	—	18,410
Guangxi Ying Kang Pharmaceutical Co., Ltd.	31,880	—	—	31,880

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 3. Shareholding held by related parties with control relationship and its change

RMB '000

Company name	Beginning Balance		Current Increase		Current Decrease		Closing Balance	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
	Guangzhou Pharmaceutical Holdings Limited	491,000	60.55	—	—	—	—	491,000
Guangzhou Xingqun Pharmaceutical Co., Ltd.	68,670	88.99	—	—	—	—	68,670	88.99
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	150,000	90.36	—	—	—	—	150,000	90.36
Guangzhou Chenlijia Pharmaceutical Factory	94,000	100	18,850	—	—	—	112,850	100
Guangzhou Qixing Pharmaceutical Factory	82,420	100	—	—	—	—	82,420	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	76,230	88.40	—	—	—	—	76,230	88.40
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	57,440	87.78	—	—	—	—	57,440	87.78
Guangzhou Pharmaceuticals Corporation	200,000	90.09	—	—	—	—	200,000	90.09
Guangzhou Chinese Medicine Corporation	69,700	100	5,330	—	—	—	75,030	100
Guangzhou Pharmaceutical Import & Export Corporation	15,000	100	—	—	—	—	15,000	100
Guangzhou Huanye Pharmaceutical Co., Ltd.	3,580	59.70	—	—	—	—	3,580	59.70
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	89,480	70.04	—	—	—	—	89,480	70.04
Guangzhou Bio-Technology Co., Ltd.	66,500	94.87	13,500	0.82	—	—	80,000	95.69
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	93,880	51	—	—	—	—	93,880	51
Guangxi Ying Kang Pharmaceutical Co., Ltd.	16,260	51	—	—	—	—	16,260	51



# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 4. Related parties with joint control relationship

Company name	Registered address	Principal business	Relationship with the Company	Economic nature and type	Legal representative
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Jiangcun Bridge side, Baiyun District, Guangzhou	Production and sales	Cooperatively run enterprise	Joint stock company with limited liabilities	Li Zuze
Guangzhou Lianjie Computer Technology Co., Ltd.	7/F, 82, Shangjiu Rd., Guangzhou	Development and service of softwares	Cooperatively run enterprise	Company with limited liability	Tan Liqing

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

*RMB '000*

Company name	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	106,378	98,378	—	<b>204,756</b>
Guangzhou Lianjie Computer Technology Co., Ltd.	500	—	—	<b>500</b>

### 6. Shareholding held by related parties with joint control relationship and its change

*RMB '000*

Company name	Beginning Balance		Current Increase		Current Decrease		Closing Balance	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Guangzhou Wanglaoji Pharmaceutical Co.	98,378	92.48	—	—	—	44.4335	<b>98,378</b>	<b>48.0465</b>
Guangzhou Lianjie Computer Technology Co., Ltd.	250	50	—	—	—	—	<b>250</b>	<b>50</b>

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 7. Related party transactions

#### 1. Nature of related parties with no control relationship

Name	Relationship with the Company
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	Fellow subsidiary
Gunagzhou South-china Medical Appliance Co., Ltd.	Fellow subsidiary
Baolian Development Co., Ltd.	Fellow subsidiary
Guangzhou Zhongfu Medical Co., Ltd.	Joint venture
Guangzhou Medical Industry Research Center	Fellow subsidiary
Guangzhou Baiyunshan Chinese Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary
Guangzhou Baiyunshan Chemistry Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Pharmaceutical Economic Development Company	Fellow subsidiary

The subsidiary Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has an increment on capital by investment from a new shareholder in March 2005. The company has changed from a controlling shareholder to a joint controlling one. The related party transactions with this company listed as follows are those occupied by other shareholders of this company.



# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 7. Related party transactions *(continued)*

#### 2. Purchase of goods

Company name	2005	RMB'000
		2004
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	40,260	26,595
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	38,479	22,484
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	37,468	6,769
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	10,113	2,439
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	69,722	32,568
Gunagzhou South-china Medical Appliance Co., Ltd.	6	—
Baolian Development Co., Ltd.	160,840	9,607
Guangzhou Zhongfu Medical Co., Ltd.	—	108
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	26,310	—
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	39,950	1,744
Guangzhou Baiyunshan Pharmaceutical Factory	52,135	155
Guangzhou Baiyunshan Chemistry Medicine Factory	2,295	—
Guangzhou Baiyunshan External Use Medicine Factory	5,578	2,089
Guangzhou Pharmaceutical Economic Development Company	15	—
	<b>483,171</b>	<b>104,558</b>

The abovementioned purchases are settled at the price regulated by the government or its pricing regulations

#### 3. Sales of goods

Company name	2005	RMB'000
		2004
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	61,207	47,021
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	13,227	1,626
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	18,143	18,537
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	1,487	1,154
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	42,878	3,692
Guangzhou Medicine Research Institute	2	7
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	20,700	—
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	17,715	1,392
Guangzhou Baiyunshan Pharmaceutical Factory	24,443	7,580
Guangzhou Baiyunshan Chemistry Medicine Factory	20,430	3,132
Guangzhou Baiyunshan External Use Medicine Factory	1,763	5
	<b>221,995</b>	<b>84,146</b>

The abovementioned sales are settled at the price regulated by the government or its pricing regulations

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 7. Related party transactions *(continued)*

#### 4. Receivables and payables

Company name	Closing Balance	RMB '000 Beginning Balance
<b>Accounts receivable:</b>		
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	26,468	17,232
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	1,714	739
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	1,842	5,481
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	238	432
Guangzhou Guanghua Pharmaceutical Co., Ltd.	2,895	1,573
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	2,268	—
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	1,777	1,154
Guangzhou Baiyunshan Pharmaceutical Factory	4,224	1,753
Guangzhou Baiyunshan Chemistry Medicine Factory	1,208	423
Guangzhou Baiyunshan External Use Medicine Factory	170	—
<b>Accounts payable:</b>		
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	1,632	240
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	2,293	274
Guangzhou Baiyunshan Tianxi Pharmaceutical Co., Ltd.	206	(87)
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	524	106
Guangzhou Guanghua Pharmaceutical Co., Ltd.	740	394
Guangzhou South-china Medical Appliance Co., Ltd.	11	—
Baolian Development Co., Ltd.	49,750	20,201
Guangzhou Zhongfu Medical Co., Ltd.	—	42
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	148	—
Guangzhou Baiyunshan Pharmaceutica Factory	10	202
Guangzhou Baiyunshan External-use Medicine Factory	292	70
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	2,046	621
Guangzhou Pharmaceutical Economic Development Company	17	—
<b>Other receivables:</b>		
Guangzhou Pharmaceutical Holdings Limited	5,060	6,312
Guangzhou Hejigong Pharmaceutical Co., Ltd.	—	25
Guangzhou South-china Medical Appliance Co., Ltd.	100	100
Guangzhou Lianjie Computer Technology Co., Ltd.	520	—
Bao Lian Development Co., Ltd.	7,993	14,854
<b>Other payables:</b>		
Guangzhou Pharmaceutical Holdings Limited	25,468	27,428
Guangzhou Zhongfu Medical Co., Ltd.	1,235	207
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	97	—
Guangzhou Baiyunshan Pharmaceutical Factory	—	101
Guangzhou Pharmaceutical Goods and Supply Company	3,000	1,724
<b>Advances to suppliers</b>		
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	197	—
<b>Advances to customers:</b>		
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	22	30
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	279	48
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	91	24
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	1	1
Guangzhou Baiyunshan Chemistry Medicine Factory	—	36
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	300	18
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	176	—

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 7. Related party transactions *(continued)*

#### 5. Receipt of services

Items	Note	RMB '000	
		2005	2004
Service fee on staff housing	1	310	480
Comprehensive service fee	2	860	910
		<u>1,170</u>	<u>1,390</u>

Note:

1 : Pursuant to the Accommodation Service Agreement entered into by the Company and the Group on September 1, 1997 and supplementary on December 31, 1997, the Group agreed to provide employees of the Company continuously staff quarters. The Group agreed to pay a service fee equal to 6% of the net book value of the relevant staff quarters. The Accommodation Services Agreement will be expired on December 31, 2007.

2 : Pursuant to the Composite Services Agreement established by the Company and the Group on September 1, 1997, the Group agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to the Group'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 be expired on December 31, 2007.

#### 6. Rental

Pursuant to the Tenancy Agreement and the Office Building Tenancy Agreement both entered into by the Group and the Holding on September 1, 1997, the Holding granted to the Group the right to use certain premises as warehouses and offices, in which the term of the Office Building Tenancy Agreement was 3 years, and the agreement will be 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 be expired on September 1, 2007 at rentals which were determined by the utilities and other outgoings which were payable based on the actual consumption.

According to the Office Building Tenancy Agreement established by the Group and the Holding on February 6, 2004, the Group rented the back tower of the Holding's building at No. 45 Shamian North Street 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 Group should pay such rental charges of RMB3,450,000 for the current year (last cumulated: RMB3,871,000).

# NOTES TO THE ACCOUNTINGS STATEMENTS

## VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### 7. Related party transactions *(continued)*

#### 7. License fee

Pursuant to the Trademark License Agreement entered into by the Group and the Holding on September 1, 1997, the Holding granted the Group an exclusive right to use 38 trademarks owned by the Holding for a term of 10 years commencing at the signature date. The Group agreed to pay license fees for the use of the trademarks at 0.1% of its aggregate net sales. The Trademark License Agreement will be expired on September 1, 2007. The Group should pay the above license fee of RMB12,230,000 for the current year (last year: RMB7,618,000).

#### 8. Prepaid rental

In accordance with the Premises Agreement entered into by the Group and the Holding on August 28, 1998, the Holding agreed to grant the Group the right to use certain units of its new office building. The rent paid by the Group 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 Group 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 Group. The term will be expired until the advance payment is fully offset. The Group has prepaid such rental charges of RMB4,344,000 by December 31, 2005.

## IX. CONTINGENT EVENTS

### 1. The Group

Up to December 31, 2005, there are no guaranties for external companies.

### 2. The Company

As at December 31, 2005, the Company has provided guaranties for the following subsidiaries:

<i>RMB '000</i>			
Company guaranteed	Guaranty content	Amount	Period
Guangzhou Pharmaceuticals Corporation	Loan of working capital	413,000	1 year
Guangzhou Chinese Medicine Corporation	Loan of working capital	19,000	1 year
Guangzhou Pharmaceuticals Imp. & Exp Corporation	Loan of working capital	10,000	1 year
Total		<u>442,000</u>	

# NOTES TO THE ACCOUNTINGS STATEMENTS

## X. COMMITMENTS

Up to December 31, 2005, material commitments of the Group are as follows:

Item	RMB '000	
	2005	2004
Project and equipment payables with contract signed	61,448	24,836
Rental payables with contract signed	84,928	78,848

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

1. The Company has announced its Shares Discretion Reformation Scheme on March 14, 2006, and the amendment of the Shares Discretion Reformation Scheme pronounced on March 24, 2006, the shareholders of non-tradable shares have agreed to pay consideration to the shareholders of A shares for liberalizing trade of non-tradable shares in the A share market. Details are as follows: the shareholders of A shares will obtain a consideration of 3 shares for each of its 10 tradable A shares. After the payment, the non-tradable shares owned by the shareholders of non-tradable shares will be traded freely in the A share market. Such Shares Discretion Reformation Scheme has not been passed by voting by the shareholders of non-tradable shares, and the shareholders' general meeting has not voted on it.
2. Up to February 28, 2006, the receivables from Baolian Development Co., Ltd. with an amount of HKD7,096,146.08 has been recovered and deposited in the Hong Kong dollar account of the Bank of China Hong Kong Branch.
3. As suggested by the Board of Directors, the dividend allocation plan for the year 2005 will be: the Company proposes to allocate RMB0.07 per share, therefore the total dividends to be allocated sum up to RMB56,763,000 at the total shares of 810,900,000.

## 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. COMPARISON WITH THE DATA OF LAST YEAR

For the convenience of comparison with the data of last year, some items of last year's data in the notes to the accounting statements are reclassified.

# NOTES TO THE ACCOUNTINGS STATEMENTS

## XV. ANALYSIS ON THE MOVEMENT OF ACCOUNTING DATA

As at December 31, 2005 and December 31, 2004, the items in the consolidated balance sheet moved with a range over 30%, and such items occupied more than 5% of the net assets of the Group as at December 31, 2005 additionally; the items in the consolidated income statement moved with a range over 30%, and such items occupied more than 10% of the total profit of the Group for the year 2005 are as follows:

RMB '000				
Item	As at Dec. 31, 2005	As at Dec. 31, 2004	Movement Amount	Range (%)
Notes Receivable (Note 1)	331,754	185,210	146,544	79.12
Construction Work in Progress (Note 2)	159,910	119,645	40,265	33.65
Item	For the year 2005	For the year 2004	Amount	Range (%)
Net cash flows from investing activities (Note 3)	(118,036)	(255,871)	137,835	53.87
Net cash flows from financing activities (Note 4)	(291,930)	119,777	(411,707)	(343.73)

Note:

- 1: The closing balance of notes receivable increases by 79.12% compared with the beginning balance, mainly owing to the enlargement of the Group's business scale and thus more bills are used for settlement.
- 2: The closing balance of construction work in progress increases by 33.65% compared with the beginning balance, mainly resulting from increasing the capital contribution of RMB21,145,000 on the Conghua base construction of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd., RMB8,646,000 on the rabies bacterin project (equipment installation B of Guangzhou Bio-technology Co., Ltd.), RMB5,688,000 on the Expansion Project for Oral liquid Production of Guangzhou Xingqun Pharmaceutical Company, and RMB4,188,000 on the GMP restrustion project on expansion project of grain of Guangzhou Xingqun Pharmaceutical Company.
- 3: The net cash flows from investing activities increase by 53.87% compared with that of last year. The main reason is that cash paid to acquire fixed assets decreases by RMB184,344,000 Compared with that of last year.
- 4: Net cash flows from financing activities decrease by 343.73% compared with that of last year, mainly because that the Group has repaid bank loans for 207,562 thousand accumulatively in net during the current year.



# NOTES TO THE ACCOUNTINGS STATEMENTS

## XVI. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP

		At 31 December 2005 <i>RMB'000</i>	At 31 December 2004 <i>RMB'000</i>
	<i>Notes</i>		
Net assets under PRC Accounting Standards and Systems		<b>2,621,437</b>	2,440,230
Intangible assets capitalised	1	<b>37,367</b>	48,125
Difference arising from fixed assets revaluation	2	<b>128,522</b>	130,833
Deferred government grants income	3	<b>(4,259)</b>	(3,243)
Provision for employee benefits in medical insurance	4	<b>(53,586)</b>	(61,306)
Provision for deferred taxation	5	<b>10,822</b>	5,981
Impairment on goodwill	6	<b>(1,791)</b>	—
Difference in minority interests	11	<b>(15,389)</b>	(15,028)
Capital and reserve attributable to equity holders of the Company under HK GAAP		<b><u>2,723,123</u></b>	<b><u>2,545,592</u></b>
		<b>2005 <i>RMB'000</i></b>	<b>2004 <i>RMB'000</i></b>
Net profit under PRC Accounting Standards and Systems		<b>184,482</b>	55,292
Amortization of intangible assets	1	<b>(10,382)</b>	(10,446)
Additional depreciation on revalued fixed assets	2	<b>(1,975)</b>	(1,975)
Government grants recognised as income	3	<b>452</b>	361
Provision for employees benefits in medical insurance	4	<b>6,017</b>	5,476
Deferred taxation, net impact	5	<b>4,841</b>	(6,727)
Impairment on goodwill	6	<b>(1,791)</b>	—
Negative goodwill arising from the additional investment of an external investor into a subsidiary	7	<b>19,819</b>	—
Appropriation to staff bonus and welfare fund charged as expenses	8	<b>(6,074)</b>	(2,693)
Loss recognised arising from dilution in minority interests in a subsidiary		—	(1,908)
Unsettled long outstanding payables written off recognised as income	9	<b>2,397</b>	5,113
Receipt of non-cash donation recognised as income	10	<b>440</b>	—
Differences in minority interests	11	<b>(422)</b>	336
Profit attributable to equity holders of the Company under HK GAAP		<b><u>197,804</u></b>	<b><u>42,829</u></b>

# NOTES TO THE ACCOUNTINGS STATEMENTS

## XVI. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP (continued)

Notes:

- 1) *This is an amortisation of staff quarter reform costs incurred by the Company and its subsidiaries (collectively the "Group") prior to 2000 in relation to purchases of staff quarters by its employees. Under HK GAAP, 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 are 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 financial statements of the Group prepared under HK GAAP but not in the financial statements prepared under PRC Accounting Standards and Systems. Accordingly, the depreciation charge under HK GAAP is higher than that calculated under PRC Accounting Standards and Systems as the depreciation charge under HK GAAP is based on the revalued amount of fixed assets.*
- 3) *Government subsidies allocated for fixed assets are recognised as capital reserve in the financial statements prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, government subsidies are recognised as deferred income and credited to the 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 HK GAAP. However, in the financial statements 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 HK GAAP.*
- 5) *The Group has not made provision for deferred tax in the financial statements prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, deferred tax is accounted for using the liability method on all taxable temporary differences for deferred tax liability, and to recognise deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.*
- 6) *Goodwill is amortised using the straight-line method under PRC Accounting Standards and Systems. Under HK GAAP, any impairment on goodwill is accounted for in the income statement on a yearly basis.*
- 7) *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 financial statements prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it is accounted for in the income statement.*
- 8) *This was the staff bonus and welfare fund appropriated from profit after taxation in the financial statements prepared under PRC Accounting Standards and Systems. Under HK GAAP, it was recognised as expenses in the income statement of the year.*
- 9) *Write-off of payable was recognised as capital reserve in the financial statements prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it was recognised in the income statement and was transferred from profit after tax to capital reserve.*
- 10) *Non-cash donation accepted by the Group was recognised as capital reserve in the financial statements prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it was recognised in the income statement and was transferred from profit after tax to capital reserve.*
- 11) *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 HK GAAP. This results in a difference in the minority interests.*