

## 7. FINANCIAL REPORTS

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

## CONSOLIDATED BALANCE SHEET

As at 30th June 2006

Form 1-1  
In RMB Yuan

ASSETS:	Notes	30 June 2006	31 December 2005
<b>Current assets:</b>			
Cash	VI-1	612,939,623.84	616,982,949.00
Short term investments	VI-2	1,950,520.00	10,902,520.00
Notes receivable	VI-3	371,033,967.05	331,753,863.41
Dividends receivable	VI-4	—	3,709,259.53
Interest receivable		—	—
Accounts receivable	VI-5	1,469,007,743.95	959,776,870.53
Other receivable	VI-6	80,331,808.61	64,432,895.76
Advance to suppliers	VI-7	112,695,211.42	196,548,528.21
Subsidy receivable	VI-8	4,424,069.87	3,361,927.18
Inventories	VI-9	1,088,649,891.63	1,148,568,922.06
Prepaid expenses	VI-10	120,988,525.32	120,665,259.48
Long-term debentures investments due within one year		—	—
Other current assets		—	—
<b>Total current Assets</b>		<b>3,862,021,361.69</b>	<b>3,456,702,995.16</b>
<b>Long-term investments:</b>			
long-term equity investments	VI-11	51,399,023.02	70,195,741.17
long-term debentures investments		—	—
<b>Total long-term investments</b>		<b>51,399,023.02</b>	<b>70,195,741.17</b>
Including:consolidation variance		3,567,338.17	3,828,294.03
<b>Fixed assets</b>			
Fixed assets-cost	VI-12	1,987,431,443.88	1,974,405,781.70
Less:Accumulated depreciation	VI-12	709,119,438.90	658,927,334.13
Fixed assets-net value		1,278,312,004.98	1,315,478,447.57
Less:Provisions for fixed assets	VI-12	17,394,972.77	17,902,314.55
Net of fixed assets		1,260,917,032.21	1,297,576,133.02
Construction supplies		—	—
Construction work in progress	VI-13	182,664,882.75	159,910,405.52
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>1,443,581,914.96</b>	<b>1,457,486,538.54</b>
<b>Intangible assets &amp; other assets:</b>			
Intangible assets	VI-14	97,132,125.62	98,677,683.80
Long-term prepaid expenses	VI-15	12,430,858.95	15,031,582.69
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>109,562,984.57</b>	<b>113,709,266.49</b>
<b>Deferred tax:</b>			
Deferred tax debits		—	—
<b>Total Assets</b>		<b>5,466,565,284.24</b>	<b>5,098,094,541.36</b>

**CONSOLIDATED BALANCE SHEET (CONTINUED)**  
As at 30th June 2006

**Form 1-2**  
In RMB Yuan

<b>LIABILITIES &amp; OWNERS' EQUITY</b>	<i>Notes</i>	<b>30 June 2006</b>	31 December 2005
<b>Current liabilities:</b>			
Short-term loans	VI-16	841,448,832.77	867,785,368.60
Notes payable	VI-17	95,747,522.17	86,008,063.38
Accounts payable	VI-18	1,031,365,511.87	869,696,059.12
Advances from customers	VI-19	33,248,242.19	31,129,313.34
Accrued payroll		83,759,257.95	45,376,812.42
Welfare payable		52,090,931.55	52,939,978.26
Dividends payable	VI-20	62,723,735.14	26,492.89
Tax payable	VI-21	54,843,007.14	24,377,413.61
Other liabilities	VI-22	4,562,982.57	3,628,657.66
Other payables	VI-23	212,893,167.35	191,144,199.01
Accrued expenses	VI-24	43,488,868.38	14,220,101.58
Estimated liabilities		—	—
Long-term liabilities due within 1 year	VI-25	30,000,000.00	50,000,000.00
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>2,546,172,059.08</b>	<b>2,236,332,459.87</b>
<b>Long-term liabilities:</b>			
Long-term loan		—	—
Bonds payable		—	—
Long-term payable	VI-26	4,714,857.38	4,716,728.21
Special payables	VI-27	48,408,753.99	50,109,349.38
Other long-term liabilities		—	—
<b>Total long-term liabilities</b>		<b>53,123,611.37</b>	<b>54,826,077.59</b>
<b>Deferred tax:</b>			
Deferred tax credits		—	—
<b>Total liabilities</b>		<b>2,599,295,670.45</b>	<b>2,291,158,537.46</b>
Minority shareholders's equity		182,224,758.13	185,499,251.78
<b>Shareholders' equity:</b>			
Share capital	VI-28	810,900,000.00	810,900,000.00
Less: returned of investments		—	—
Net share capital		810,900,000.00	810,900,000.00
Capital surplus	VI-29	1,149,776,233.54	1,149,453,755.66
Reserved fund	VI-30	565,356,551.60	567,243,340.17
Including: public welfare fund	VI-30	—	179,461,575.56
Retained earnings	VI-31	159,012,070.52	93,839,656.29
Including: Cash dividend planned to allocate		—	56,763,000.00
Exchange difference on foreign currency capital		—	—
Less: unconfirmed investment loss		—	—
<b>Total shareholders' equity</b>		<b>2,685,044,855.66</b>	<b>2,621,436,752.12</b>
<b>Total Liabilities &amp; shareholders' equity</b>		<b>5,466,565,284.24</b>	<b>5,098,094,541.36</b>

**CONSOLIDATED INCOME STATEMENT**

For the period ended 30th June 2006

**Form 2-1**  
In RMB Yuan

Item	Notes	Six months ended 30th June 2006	Six months ended 30th June 2005
<b>I. Sales</b>	VI-32	<b>5,193,992,342.44</b>	4,596,172,011.27
Less: Cost of sales	VI-33	<b>4,275,222,738.06</b>	3,781,112,233.96
Sales tax and levies	VI-34	<b>14,676,946.95</b>	13,601,179.60
<b>II. Profit from principal operations</b>		<b>904,092,657.43</b>	801,458,597.71
Add: Profit from other operations	VI-35	<b>24,324,457.75</b>	21,041,587.55
Less: Operating expenses		<b>404,626,544.37</b>	301,438,593.12
General and administrative expenses		<b>317,040,832.23</b>	319,337,604.14
Financial expenses	VI-36	<b>21,794,808.86</b>	24,822,607.19
<b>III. Operating profit</b>		<b>184,954,929.72</b>	176,901,380.81
Add: Investment income	VI-37	<b>7,186,192.71</b>	(3,976,044.37)
Subsidies income		<b>396,941.04</b>	189,521.00
Non-operating income	VI-38	<b>2,924,975.87</b>	648,156.53
Less: Non-operating expenses	VI-39	<b>3,654,716.17</b>	3,058,098.59
<b>VI. Total profit</b>		<b>191,808,323.17</b>	170,704,915.38
Less: Income tax		<b>63,434,849.48</b>	60,004,570.92
Less: Loss and gain of minority shareholders		<b>8,324,848.03</b>	7,109,905.23
Add: Unconfirmed investment profit		—	—
<b>V. Net profit</b>		<b>120,048,625.66</b>	103,590,439.23

**Supplemental information:**

No	Items	Six months ended 30th June 2006	Six months ended 30th June 2005
1	Revenue from sale or disposal of department or invested company	(216,576.40)	—
2	Loss incurred from natural disaster	—	—
3	Total profit increased(decreased) due to accounting policy alteration	—	—
4	Total profit increased(decreased) due to accounting estimation a alteration	—	—
5	Loss from debits reconstruction	—	—
6	Others	—	—

**Supplementary Consolidated Profit And Loss Account**

For the period ended 30th June 2006

**Form 2-2**  
In RMB Yuan

Profit for the period	Six months ended 30th June 2006				Six months ended 30th June 2005			
	Return on net assets (%)		Earning per share		Return on net assets (%)		Earning per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	33.67	33.72	1.11	1.11	31.49	32.29	0.99	0.99
Profit from operations	6.89	6.90	0.23	0.23	6.95	7.13	0.22	0.22
Net profit	4.47	4.48	0.15	0.15	4.07	4.17	0.13	0.13
Net profit after deduction of non-recurring items	4.32	4.42	0.14	0.14	4.32	4.53	0.14	0.14

**CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION**  
For the period ended 30th June 2006

Items	<b>Form 3</b>	
	<i>In RMB Yuan</i>	
	<b>Six months ended 30th June 2006</b>	Six months ended 30th June 2005
<b>I. Net profit</b>	<b>120,048,625.66</b>	103,590,439.23
Add: Retained earnings brought forward	93,839,656.29	22,505,890.50
Add: Transfer from others	1,886,788.57	9,916,543.08
<b>II. Profit distributable</b>	<b>215,775,070.52</b>	136,012,872.81
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Transfer to Enterprise expansion fund	—	—
Less: Profit returned to Investment	—	—
<b>III. Profit distributable to shareholders</b>	<b>215,775,070.52</b>	136,012,872.81
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	56,763,000.00	20,272,500.00
Less: Dividend for ordinary shares transfer to share capital	—	—
<b>IV. Retained earnings</b>	<b>159,012,070.52</b>	115,740,372.81

**CONSOLIDATED STATEMENT OF CASH FLOW**  
For the period ended 30th June 2006

**Form 4-1**  
*In RMB Yuan*

Item	Notes	Six months ended 30th June 2006	Six months ended 30th June 2005
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		5,503,935,339.15	4,978,199,501.40
Refund of tax and levy		3,925,251.89	4,935,073.43
Other cash received relating to operating activities	VI-41	48,544,336.68	49,079,457.54
<b>Subtotal of cash inflows</b>		<b>5,556,404,927.72</b>	<b>5,032,214,032.37</b>
Cash paid for goods or services		4,548,902,788.67	4,100,125,115.02
Cash paid to and on behalf of employees		292,852,468.14	271,779,744.25
Taxes paid		274,597,929.38	261,834,960.86
Other cash paid relating to operating activities	VI-42	381,048,520.19	284,825,939.39
<b>Subtotal of cash outflows</b>		<b>5,497,401,706.38</b>	<b>4,918,565,759.52</b>
<b>Net cash flows from operating activities</b>		<b>59,003,221.34</b>	<b>113,648,272.85</b>
<b>II. Cash flows from investing activities</b>			
Cash received from sales of investments		46,076,935.66	184,981.59
Including: cash received from sales of subsidiaries		30,000,000.00	—
Cash received from investment income		5,440,071.35	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,973,189.26	389,982.91
Other cash received from investing activities		6,599,854.48	—
<b>Subtotal of cash inflows</b>		<b>62,090,050.75</b>	<b>574,964.50</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		43,638,698.26	69,425,936.72
Cash paid to acquire investments		15,220,697.50	—
Other cash paid in relation to investing activities		551,804.15	—
<b>Subtotal of cash outflows</b>		<b>59,411,199.91</b>	<b>69,425,936.72</b>
<b>Net cash flows from investing activities</b>		<b>2,678,850.84</b>	<b>(68,850,972.22)</b>
<b>III. Cash flows from financing activities</b>			
Proceeds from acquiring investments		—	62,626,946.09
Including: cash received from minority shareholders equity investment of subsidiaries		—	62,626,946.09
Proceeds from borrowings		158,000,000.00	294,393,305.26
Other proceeds relating to financing activities		160,365,295.28	192,951,757.57
<b>Subtotal of cash inflows</b>		<b>318,365,295.28</b>	<b>549,972,008.92</b>
Cash repayments of amounts borrowed		196,586,050.00	377,247,866.81
Cash payments for distribution of dividends or interest		36,979,831.68	29,584,984.92
Including: cash payments for dividends to minority shareholders of subsidiaries		14,185,845.06	2,529,349.63
Other cash payments relating to financing activities		150,651,540.67	277,384,049.19
Including: cash payments for minority shareholders equity of subsidiaries		—	—
<b>Subtotal of cash outflows</b>		<b>384,217,422.35</b>	<b>684,216,900.92</b>
<b>Net cash flows from financing activities</b>		<b>(65,852,127.07)</b>	<b>(134,244,892.00)</b>
<b>VI. Effect of foreign exchange rate charges on cash</b>		<b>126,729.73</b>	<b>—</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>(4,043,325.16)</b>	<b>(89,447,591.37)</b>

**CONSOLIDATED STATEMENT OF CASH FLOW(CONTINUED)**  
For the period ended 30th June 2006

**Form 4-2**  
*In RMB Yuan*

Supplemental Information	Six months ended 30th June 2006	Six months ended 30th June 2005
<b>I. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	120,048,625.66	103,590,439.23
Loss&gain of minority shareholders	8,324,848.03	7,109,905.23
Add: Provision for value impairment of assets	13,289,590.77	10,109,770.84
Depreciation of fixed assets	57,275,707.04	62,035,579.52
Amortization of intangible assets	2,335,103.18	2,306,402.52
Amortization of long-term prepaid expenses	3,945,986.40	4,824,939.49
Decrease in prepaid expenses(less: increase)	(323,265.84)	(10,724,699.69)
Increase in accrued expenses(less: decrease)	29,268,766.80	21,658,202.23
Losses on disposal of fixed,intangible assets and other long-term assets(less: gains)	738,788.37	299,084.60
Losses on scrapping of fixed assets	24,016.02	766,051.14
Financial expenses	21,423,260.90	27,055,635.30
Losses on investments(less: gains)	(7,186,192.71)	3,976,044.37
Defferd tax credit(less: debit)	—	—
Decrease in inventories(less: increase)	54,143,777.03	39,702,754.65
Decrease in operating receivables(less: increase)	(593,345,864.01)	(296,962,859.65)
Increase in operating payables(less: decrease)	349,040,073.70	148,659,590.49
Others	—	(10,758,567.42)
<b>Net cash flows from operating activities</b>	<b>59,003,221.34</b>	<b>113,648,272.85</b>
<b>II. Investing and financing activities that do not involve cash receipts or payments:</b>		
Repayment of debts by the transfer of investments	—	—
Convertible bonds due within 1 year	—	—
Fixed assets obtained by financing lease	—	—
<b>III. Net increase in cash and cash equivalents</b>		
Cash at the end of period	612,939,623.84	791,377,006.53
Less: Cash at the beginning of the period	616,982,949.00	880,824,597.90
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>(4,043,325.16)</b>	<b>(89,447,591.37)</b>

## STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY

For the period ended 30th June 2006

Supplementary Information of Consolidated Balance Sheet part 1  
In RMB Yuan

Item	Notes	Six months ended 30th June 2006	Six months ended 30th June 2005
<b>I. Paid-in-stock:</b>	VI-28		
Beginning balance		810,900,000.00	810,900,000.00
Increase in the current period		—	—
Decrease in the current period		—	—
Ending balance		810,900,000.00	810,900,000.00
<b>II. Capital surplus:</b>	VI-29		
Beginning balance		1,149,453,755.66	1,126,381,425.35
Increase in the current period		322,477.88	21,452,991.23
Including: Premium on stock		—	—
Reserve of donated non-cash assets		—	428,616.92
Receipt of cash donation		—	—
Equity investment reserve		16,688.40	19,106,315.70
Transfer-in from government appropriation		70,400.00	1,918,058.61
Foreign currency capital translation difference		—	—
Other capital surplus		235,389.48	—
Decrease in the current period		—	—
Including: Recovery of losses		—	—
Ending balance		1,149,776,233.54	1,147,834,416.58
<b>III. Statutory and discretionary surplus reserves:</b>	VI-30		
Beginning balance		387,781,764.61	326,870,323.86
Increase in the current period		179,048,689.26	—
Including: Amount appropriated from net income		—	—
Including: Statutory surplus reserve		—	—
Discretionary surplus reserve		—	—
Transfer-in from statutory public welfare fund		179,048,689.26	—
Decrease in the current period		1,473,902.27	6,909,090.60
Including: Recovery of losses		—	—
Conversion into stock		—	—
Distribution of cash dividend or profit		—	—
Distribution of stock dividend		—	—
Ending balance		565,356,551.60	319,961,233.26
Including: Statutory surplus reserve		252,910,421.38	212,597,379.79
<b>IV. Statutory public welfare fund:</b>	VI-30		
Beginning balance		179,461,575.56	153,572,065.40
Increase in the current period		—	—
Including: Amount appropriated from net income		—	—
Decrease in the current period		179,461,575.56	3,007,452.46
Including: Collective welfare expenditures		—	—
Ending balance		—	150,564,612.94
<b>V. Undistributed profit:</b>	VI-31		
Undistributed profit at the beginning of the period		93,839,656.29	22,505,890.50
Transferred from others		1,886,788.57	9,916,543.08
Net income(or losses) for the period		120,048,625.66	103,590,439.23
Profit distribution in the period		56,763,000.00	20,272,500.00
Undistributed profit/losses at the end of the period		159,012,070.52	115,740,372.81

**BREAKDOWN OF PROVISION FOR ASSETS'S VALUE IMPAIRMENT**  
For the period ended 30th June 2006

**Supplementary Information of Consolidated Balance Sheet part 2**  
*In RMB Yuan*

Item	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	57,853,581.44	7,293,073.81	—	241,422.01	241,422.01	64,905,233.24
Including: Accounts receivable	44,880,992.52	6,376,784.75	—	103,525.00	103,525.00	51,154,252.27
Other receivable	12,972,588.92	916,289.06	—	137,897.01	137,897.01	13,750,980.97
2. Total provision for short-term investment	8,850,080.00	—	—	1,048,000.00	1,048,000.00	7,802,080.00
Including: Stock investment	—	—	—	—	—	—
Debenture investment	7,802,080.00	—	—	—	—	7,802,080.00
Fund investment	1,048,000.00	—	—	1,048,000.00	1,048,000.00	—
3. Total provision for inventories	1,954,226.83	5,996,516.96	—	221,263.56	221,263.56	7,729,480.23
Including: Goods in stock	1,910,664.20	700,455.04	—	177,700.93	177,700.93	2,433,418.31
Raw materials	43,562.63	15,220.35	—	43,562.63	43,562.63	15,220.35
4. Total provision for long-term investment	1,078,551.23	—	—	—	—	1,078,551.23
Including: Long-term equity investment	1,078,551.23	—	—	—	—	1,078,551.23
Long-term debenture investment	—	—	—	—	—	—
5. Total provision for fixed assets	17,902,314.55	—	—	507,341.78	507,341.78	17,394,972.77
Including: Houses & buildings	11,643,357.48	—	—	507,341.78	507,341.78	11,136,015.70
Machinery equipment	5,581,718.63	—	—	—	—	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>88,734,905.51</u>	<u>13,289,590.77</u>	<u>—</u>	<u>2,018,027.35</u>	<u>2,018,027.35</u>	<u>100,006,468.93</u>



**BALANCE SHEET**  
As at 30th June 2006

**Form 5-1**  
In RMB Yuan

<b>ASSETS:</b>	<i>Notes</i>	<b>30 June 2006</b>	31 December 2005
<b>Current assets:</b>			
Cash		172,343,675.00	90,102,690.07
Short term investments		427,950,520.00	372,902,520.00
Notes receivable		5,010,406.80	—
Dividends receivable		22,943,335.35	7,720,145.68
Interest receivable		—	—
Accounts receivable	VII-1	33,143,866.36	—
Other receivable	VII-2	191,939,156.46	166,931,572.06
Advance to suppliers		3,977,055.00	—
Subsidy receivable		—	—
Inventories		6,058,107.81	—
Prepaid expenses		4,105,739.66	—
Long-term debentures investments due within one year		—	—
Other current assets		—	—
<b>Total current Assets</b>		<b>867,471,862.44</b>	<b>637,656,927.81</b>
<b>Long-term investments:</b>			
Long-term equity investments	VII-3	1,988,223,150.75	2,025,934,634.58
Long-term debentures investments		—	—
<b>Total long-term investments</b>		<b>1,988,223,150.75</b>	<b>2,025,934,634.58</b>
Including: equity investment differences		2,187,462.68	2,480,768.01
<b>Fixed assets</b>			
Fixed assets-cost		42,193,284.11	41,236,900.52
Less: Accumulated depreciation		19,324,450.29	17,535,891.44
Fixed assets-net value		22,868,833.82	23,701,009.08
Less: Provision for fixed assets		—	—
Net of fixed assets		22,868,833.82	23,701,009.08
Construction supplies		—	—
Construction work in progress		—	—
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>22,868,833.82</b>	<b>23,701,009.08</b>
<b>Intangible assets &amp; other assets:</b>			
Intangible assets		—	—
Long-term deferred expenses		1,020,340.69	912,355.01
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>1,020,340.69</b>	<b>912,355.01</b>
<b>Deferred tax:</b>			
Deferred tax debits		—	—
<b>Total Assets</b>		<b>2,879,584,187.70</b>	<b>2,688,204,926.48</b>

**BALANCE SHEET(CONTINUED)**  
As at 30th June 2006

**Form 5-2**  
*In RMB Yuan*

<b>LIABILITIES &amp; OWNERS' EQUITY</b>	<i>Notes</i>	<b>30 June 2006</b>	31 December 2005
<b>Current liabilities:</b>			
Short-term loans		30,000,000.00	40,000,000.00
Notes payable		—	—
Accounts payable		41,452,117.78	—
Advances from customers		164,953.21	—
Accrued payroll		2,251,560.18	1,734,915.18
Welfare payable		3,543,046.06	3,487,779.14
Dividends payable		55,776,326.64	24,739.37
Tax payable		788,009.96	390,052.43
Other liabilities		108,503.72	12,605.17
Other payables		9,949,387.05	5,887,062.42
Accrued expenses		2,854,140.70	2,430,164.70
Estimated liabilities		—	—
Long-term liabilities due within 1 year		—	—
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>146,888,045.30</b>	<b>53,967,318.41</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>146,888,045.30</b>	<b>53,967,318.41</b>
<b>Shareholders' equity:</b>			
Share capital		810,900,000.00	810,900,000.00
Less: returned of investments		—	—
Net share capital		810,900,000.00	810,900,000.00
Capital surplus		1,148,832,634.02	1,148,510,273.74
Reserved fund		182,088,980.38	182,088,980.38
Including: public welfare fund		—	71,271,823.11
Retained earnings		590,874,528.00	492,738,353.95
Cash dividend planed to allocate		—	56,763,000.00
<b>Total shareholders' equity</b>		<b>2,732,696,142.40</b>	<b>2,634,237,608.07</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,879,584,187.70</b>	<b>2,688,204,926.48</b>

**INCOME STATEMENT**

For the period ended 30th June 2006

**Form 6**  
In RMB Yuan

Item	Notes	Six months ended 30th June 2006	Six months ended 30th June 2005
<b>I. Sales</b>		<b>151,854,707.47</b>	—
Less: Cost of sales		145,459,532.49	—
Sales tax and levies		320,618.24	—
<b>II. Profit from principal operations</b>		<b>6,074,556.74</b>	—
Add: Profit from other operations		8,856,774.40	4,374,268.41
Less: Operating expenses		2,986,585.34	—
General and administrative expenses		13,670,943.56	13,164,929.36
Financial expenses		(91,927.28)	(865,493.62)
<b>III. Operating profit</b>		<b>(1,634,270.48)</b>	(7,925,167.33)
Add: Investment income	VII-4	156,541,037.95	122,720,286.49
Subsidies income		—	—
Non-operating income		9,870.43	3,150.02
Less: Non-operating expenses		17,463.85	253.00
<b>VI. Total profit</b>		<b>154,899,174.05</b>	114,798,016.18
Less: Income tax		—	—
Less: Loss and gain of minority shareholders		—	—
<b>V. Net profit</b>		<b><u>154,899,174.05</u></b>	<b><u>114,798,016.18</u></b>

**THE STATEMENT OF PROFIT DISTRIBUTION**  
For the period ended 30th June 2006

Item	<b>Form 7</b>	
	<i>In RMB Yuan</i>	
	<b>Six months ended 30th June 2006</b>	Six months ended 30th June 2005
<b>I. Net profit</b>	<b>154,899,174.05</b>	114,798,016.18
Add: Retained earnings brought forward	<b>492,738,353.95</b>	348,842,914.78
Add: Transfer from others	—	—
<b>II. Profit distributable</b>	<b>647,637,528.00</b>	463,640,930.96
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Transfer to Enterprise expansion fund	—	—
Less: Profit returned to Investment	—	—
<b>III. Profit distributable to shareholders</b>	<b>647,637,528.00</b>	463,640,930.96
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	<b>56,763,000.00</b>	20,272,500.00
Less: Dividend for ordinary shares transfer to share capital	—	—
<b>IV. Retained earnings</b>	<b>590,874,528.00</b>	443,368,430.96

**STATEMENT OF CASH FLOW**  
For the period ended 30th June 2006

**Form 8-1**  
*In RMB Yuan*

Item	Six months ended 30th June 2006	Six months ended 30th June 2005
<b>I. Cash flows from operating activities</b>		
Cash received from sales of goods or rendering of services	139,494,849.39	—
Refund of tax and levy	—	—
Other cash received relating to operating activities	9,825,372.21	4,529,614.68
<b>Subtotal of cash inflows</b>	<b>149,320,221.60</b>	<b>4,529,614.68</b>
Cash paid for goods or services	137,953,339.10	—
Cash paid and or on behalf of employees	4,691,399.48	2,832,686.50
Taxes paid	3,422,882.65	679,853.83
Other cash paid relating to operating activities	18,094,682.18	7,580,451.45
<b>Subtotal of cash outflows</b>	<b>164,162,303.41</b>	<b>11,092,991.78</b>
<b>Net cash flows from operating activities</b>	<b>(14,842,081.81)</b>	<b>(6,563,377.10)</b>
<b>II. Cash flows from investing activities</b>		
Cash received from sales of investments	44,676,935.66	—
Including: cash received from sales of subsidiaries	—	—
Cash received from investment income	134,316,334.60	83,545,010.61
Net Cash received from disposal of fixed assets, intangible assets and other long-term assets	—	250.00
Other cash received from investing activities	58,860,634.39	128,457,600.00
<b>Subtotal of cash inflows</b>	<b>237,853,904.65</b>	<b>212,002,860.61</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,017,720.57	2,511,752.00
Cash paid to acquire investments	—	—
Including: cash paid for purchasing subsidiaries	—	—
Other cash paid in relation to investing activities	128,026,699.87	288,786,764.06
<b>Subtotal of cash outflows</b>	<b>129,044,420.44</b>	<b>291,298,516.06</b>
<b>Net cash flows from investing activities</b>	<b>108,809,484.21</b>	<b>(79,295,655.45)</b>
<b>III. Cash flows from financing activities</b>		
Proceeds from acquiring investments	—	—
Proceeds from borrowings	30,000,000.00	138,000,000.00
Other proceeds relating to financing activities	—	—
<b>Subtotal of cash inflows</b>	<b>30,000,000.00</b>	<b>138,000,000.00</b>
Cash repayments of amounts borrowed	40,000,000.00	51,000,000.00
Cash payments for distribution of dividends or interest	1,853,147.20	311,157.11
Other cash payments relating to financing activities	—	—
<b>Subtotal of cash outflows</b>	<b>41,853,147.20</b>	<b>51,311,157.11</b>
<b>Net cash flows from financing activities</b>	<b>(11,853,147.20)</b>	<b>86,688,842.89</b>
<b>VI. Effect of foreign exchange rate charges on cash</b>	<b>126,729.73</b>	<b>—</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>82,240,984.93</b>	<b>829,810.34</b>

**STATEMENT OF CASH FLOW (CONTINUED)**  
For the period ended 30th June 2006

Supplemental Information	<b>Form 8-2</b>	
	<i>In RMB Yuan</i>	
	Six months ended 30th June 2006	Six months ended 30th June 2005
<b>I. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	154,899,174.05	114,798,016.18
Add: Provision for value impairment of assets	378,400.55	—
Depreciation of fixed assets	1,798,179.52	1,897,890.27
Amortization of intangible assets	—	—
Amortization of long-term prepaid expenses	347,437.84	290,052.78
Decrease in prepaid expenses(less: increase)	(4,105,739.66)	—
Increase in accrued expenses(less: decrease)	423,976.00	(182,094.00)
Losses on disposal of fixed assets, intangible assets and other long-term assets(less: gains)	(161.22)	(250.00)
Losses on scrapping of fixed assets	15,889.73	53.00
Financial expenses	622,851.77	309,953.00
Losses on investments(less: gains)	(156,541,037.95)	(122,720,286.49)
Deferred tax credit(less: debit)	—	—
Decrease in inventories(less: increase)	(6,058,107.81)	—
Decrease in operating receivables(less: increase)	(42,822,724.40)	397,738.48
Increase in operating payables(less: decrease)	36,199,779.77	(1,354,450.32)
Others	—	—
Net cash flows from operating activities	<u>(14,842,081.81)</u>	<u>(6,563,377.10)</u>
<b>II. Investing and financing activities that do not involve cash receipts or payments:</b>		
Repayment of debts by the transfer of investments	—	—
Convertible bonds due within 1 year	—	—
Fixed assets obtained by financing lease	—	—
<b>III. Net increase in cash and cash equivalents</b>		
Cash at the end of the period	172,343,675.00	202,637,482.84
Less: Cash at the beginning of the period	90,102,690.07	201,807,672.50
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	<u>82,240,984.93</u>	<u>829,810.34</u>

## NOTES TO THE ACCOUNTING STATEMENTS

### I. BASIC CONDITION OF THE COMPANY

Guangzhou Pharmaceutical Company Limited (the “Company”) is a joint stock company with limited liability established initially in this form in the People’s Republic of China pursuant to a reorganization of eight Chinese patent medicine manufacturing entities and three pharmaceutical trading entities formerly under the supervision and control of Guangzhou Pharmaceutical Holdings Limited (the “Holding”) with the capital injection of the state owned equity relating to the operating assets in accordance with the TGS [1997] 139 article issued by the Economic Structure Reform Committee of the State. The Company obtained an enterprise legal person business license with the official code of 4401011101830 on September 1, 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 January 10, 2001. The total amount of shares of the Company is RMB810,900,000, including RMB 489,600,000 shares owned by the State, representing 60.38% of the total shares, and public shares of RMB321,300,000, representing 39.62% 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.

#### 5. Foreign Currency Translation

Foreign currency transactions during the year are translated into RMB at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates prevailing at the balance sheet date. Exchange differences arising from these translations are recorded as financial expenses of the current period.

#### 6. Cash Equivalents

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

## 7. Accounting for Bad Debts

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

Certified standards of bad debts recognition:

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

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

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

Aging	Provision rate (%)
Within 1 year	1
1~2 years	10
2~3 years	30
3~4 years	50
4~5 years	80
Over 5 years	100

The above receivables include accounts receivable and other receivables. The Group provides provision for other receivables after deduction of the balance of related party debtors, unreimbursed business disbursements and other current accounts irrelevant to repayment of accounts.

## 8. Inventories

Inventories of the Group include finished goods, goods in stock, work-in-process, raw materials, goods in transit, low-valued consumables and packaging materials, 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 actual cost. Goods are on a first-in-first-out basis upon issuance or dispatch except for Guangzhou Pharmaceuticals Corporation who are accounted for on a weighted average 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 that 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.

**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 substantial control 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.

**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.

**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.

**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%. Since being transferred into foreign investment enterprise, Guangzhou Wanglaoji Pharmaceutical Co., Ltd. enjoys the preferential tax policy from March 2005, the year beginning to make profit, according to the policy with exempt from income tax in the first and second years and fifty percent reduction from the third to the fifth years. Accordingly, Guangzhou Wanglaoji Pharmaceutical Co., Ltd. is exempted from enterprise income tax and local income tax.

## 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

- (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 period.

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 the shares on the total of assets, sales revenue and net profit of both the companies 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 Quære on Scope of Consolidation with reference No. CK2Z[1996]No.2 and the principle of materiality.

## 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 discretionary surplus reserve fund;
- (4) 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.

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

### 1. Cash

	Closing Balance	Beginning Balance
Cash in hand	1,872,102.66	1,304,902.35
Cash in bank	606,592,998.97	610,639,962.83
Other monetary funds	4,474,522.21	5,038,083.82
	<u>612,939,623.84</u>	<u>616,982,949.00</u>
(1) Breakdown of cash in bank		
	Closing Balance	Beginning Balance
Current deposit	533,914,068.94	525,246,900.83
Short-term time deposit	72,678,930.03	85,393,062.00
	<u>606,592,998.97</u>	<u>610,639,962.83</u>

## (2) Breakdown of other monetary funds

	Closing Balance	Beginning Balance
Out-port bank deposit	183,676.47	51,602.35
Credit card deposit	189,051.49	538,487.09
L/C guaranty deposit	1,055,789.76	1,458,961.42
Others	3,046,004.49	2,989,032.96
	<u>4,474,522.21</u>	<u>5,038,083.82</u>

(3) At the end of the period, the Group holds deposit of HKD 9,046,430 (equivalent to RMB 9,412,810) and USD 862.81 (equivalent to RMB 6,963.65) in Hong Kong.

## 2. Short-term investments

	Closing Balance	Write-down Provision
Treasury bond	<u>9,752,600.00</u>	<u>7,802,080.00</u>

(1) The closing balance of short-term investment decreases by 50.63% compared to the beginning balance, mainly because the Company sells its holding Golden Eagle Fund with the amount of RMB 10,000,000 in this reporting period.

(2) The par value of the treasure bonds under trusteeship by the Group of Nanfang Security Co., Ltd. is RMB 10,000,000 (the book value is RMB 9,752,600). 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	170,642,940.58	207,972,477.00
Trade acceptance bill	200,391,026.47	123,781,386.41
	<u>371,033,967.05</u>	<u>331,753,863.41</u>

## 4. Dividends receivable

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

The closing balance of dividends receivable decreases by RMB 3,709,000 compared to the beginning balance for the reason that the Company receives the dividends for 2005 from Guangzhou Wanglaoji Pharmaceutical Co., Ltd..

## 5. Accounts receivable

## (1) Aging analysis of Accounts Receivable

Aging	Closing Balance			
	Balance	%	Bad Debt Provision	Provision Proportion (%)
Within 1 year	1,465,242,062.49	96.39	15,005,004.76	1.02
1~2 years	12,310,770.92	0.81	1,435,015.23	11.66
2~3 years	8,862,188.49	0.58	3,347,106.26	37.77
3~4 years	4,414,100.07	0.29	3,039,833.28	68.87
4~5 years	10,678,842.91	0.70	9,673,261.40	90.58
Over 5 years	18,654,031.34	1.23	18,654,031.34	100.00
	<u>1,520,161,996.22</u>	<u>100</u>	<u>51,154,252.27</u>	<u>3.37</u>
Aging	Beginning Balance			
	Balance	%	Bad Debt Provision	Provision Proportion (%)
Within 1 year	946,271,187.05	94.19	9,120,741.30	1.00
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>	<u>100</u>	<u>44,880,992.52</u>	<u>4.47</u>

- (2) From the aforementioned balance, no account is due from shareholders with 5% or more voting shares.
- (3) From the aforementioned closing balance, RMB127,749,299.39 is owed by the top five customers with largest amount, representing 8.40% of the total balance.
- (4) There is 1 reversal of accounts receivable in the period amount to RMB 201,050 without any related party transactions.
- (5) The closing balance is increased by 51.31% compared to the beginning balance for the main reason that the Group expands its market and grows its sale continually, the credit term extends due to sales promotion therefore the period of capital employed extends compared to the beginning of the reporting period.

## 6. Other receivables

(1) Aging analysis of other receivables:

Aging	Closing Balance			
	Balance	%	Bad Debt Provision	Provision Proportion(%)
Within 1 year	57,235,668.71	60.83	452,643.17	0.79
1~2 years	2,957,262.21	3.14	619,123.34	20.94
2~3 years	8,980,552.40	9.55	132,528.51	1.48
3~4 years	5,831,419.89	6.20	3,488,616.19	59.82
4~5 years	3,393,698.32	3.61	1,825,000.00	53.78
Over 5 years	15,684,188.05	16.67	7,233,069.76	46.12
	<u>94,082,789.58</u>	<u>100</u>	<u>13,750,980.97</u>	<u>14.62</u>

  

Aging	Beginning 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>	<u>100</u>	<u>12,972,588.92</u>	<u>16.76</u>

(2) Breakdown of other receivables:

	Closing Balance	Beginning Balance
Petty cash	<b>2,108,342.12</b>	2,031,221.08
Security deposits of all kinds	<b>4,816,573.43</b>	5,263,331.18
Advances for operations	<b>25,861,874.69</b>	12,146,825.16
Staff borrowings	<b>228,426.86</b>	392,713.84
Current accounts between related parties	<b>7,016,486.22</b>	14,770,160.08
Suspense payment account	<b>4,917,502.91</b>	4,491,792.68
Discounts and allowance receivables	<b>22,162,240.04</b>	9,560,522.11
Current account with external companies	<b>26,971,343.31</b>	28,748,918.55
	<u><b>94,082,789.58</b></u>	<u>77,405,484.68</u>

(3) In the closing balance of other receivable, the amount due from shareholder with 5% or more voting shares is that from the Group with an amount of RMB4,439,433.02.

(4) The current 14 reversals of other receivables amount to RMB139,082.71 without any related party transactions.



**7. Advances to suppliers**

- (1) Among the closing balance, no advance is prepaid to shareholders with 5% or more voting capital.
- (2) The closing balance decreases by 42.66% compared to the beginning balance for the reason that the prepayment for import goods of Medicine Trade Company decreases in the reporting period.

**8. Subsidies receivable**

	<b>Closing Balance</b>	<b>Beginning Balance</b>
Export tax refundable	<u><b>4,424,069.87</b></u>	<u><b>3,361,927.18</b></u>

The closing balance of subsidies receivables increases by 31.59% compared to the beginning balance. The main reason is that the tax refund schedule is quite complicated and the tax return filing is delayed till April. Therefore, subsidiary of the Group Guangzhou Pharmaceutical Import & Export Corporation has not received most of the export tax refundable up to the end of the period.

**9. Inventories**

	<b>Closing Balance</b>		<b>Beginning Balance</b>	
	<b>Balance</b>	<b>Provision</b>	<b>Balance</b>	<b>Provision</b>
Material in transit	9,071,383.52	—	4,290,795.98	—
Raw materials	84,922,869.30	15,220.35	82,530,152.44	43,562.63
Work-in-process	83,801,503.12	4,212,916.02	110,259,697.64	—
Finished goods	64,316,469.84	1,067,925.55	91,549,539.57	—
Goods on installment sales	5,984.00	—	—	—
Low-value consumables	1,893,054.25	—	1,482,414.28	—
Packaging materials	34,041,294.25	—	28,677,577.80	—
Materials on consignment for further processing	91,225.93	—	402,807.58	—
Consigned goods for sale	39,558.23	—	63,264.17	—
Goods in stock	818,196,029.42	2,433,418.31	830,892,420.41	1,910,664.20
Others	—	—	374,479.02	—
	<u><b>1,096,379,371.86</b></u>	<u><b>7,729,480.23</b></u>	<u><b>1,150,523,148.89</b></u>	<u><b>1,954,226.83</b></u>

The closing balance of the provision for inventory write-down increases by 295.53% compared with the beginning balance, mainly because the subsidiary company Guangzhou HanFang Modern Chinese Patent Medicine Research & Development Co., Ltd. has some inventories whose net realizable value is lower than their cost. As the result, the provision for impairment of inventory is accrued accordingly.

**10. Prepaid expenses**

	Beginning Balance	Current Addition	Current Amortization	Closing Balance
Amortization of low-valued consumables	—	10,700.00	892.00	9,808.00
Prepayments of Insurance premium	741,785.21	202,117.33	547,513.91	396,388.63
Repairment and maintenance of fixed assets	—	213,942.51	71,314.17	142,628.34
Road toll	70,250.00	15,000.00	42,625.01	42,624.99
Advertising fee	13,502,207.05	19,049,880.40	20,609,788.49	11,942,298.96
Deductible input VAT	105,908,419.91	341,755,688.29	340,910,607.97	106,753,500.23
Others	442,597.31	1,958,873.97	700,195.11	1,701,276.17
	<u>120,665,259.48</u>	<u>363,206,202.50</u>	<u>362,882,936.66</u>	<u>120,988,525.32</u>

**11. Long-term equity investment**

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

Investee	Term	Holding proportion (%)	Initial contribution of investment
Indonesia Sanyou Industrial Company Limited	2014	50.00	1,521,562.82
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	29.72	563,046.50
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	—	126,842.76
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
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
Guangzhou Nuo Cheng Bio-product Co., Ltd.	N/A	50.00	6,000,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	—	40.00	362,826.38
Guangzhou Pharmaceutical Football Club Co., Ltd.	N/A	42.40	9,220,697.50
Bank of Communications	N/A	—	393,841.40
			<u>66,160,747.69</u>

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

Investee	Closing Balance	Current Fluctuation under Equity Method	Accumulated Fluctuation under Equity Method	Provision	Note
Indonesia Sanyou Industrial Company Limited	1,078,551.23	—	(443,011.59)	1,078,551.23	[1]
Shanghai Jiuhe Tang Chinese Medicine Company Limited	563,046.50	—	—	—	
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	174,407.66	—	(265,592.34)	—	
Guangzhou Jing Xiu Tang 1790 Trading Co.	103,715.13	(118,174.58)	(151,284.87)	—	
Guangzhou Kangshou Pharmaceutical Co., Ltd.	1,550,813.04	(4,870.69)	(909,186.96)	—	
Ming Tai Industrial (Thailand) Company Limited	321,146.49	—	(195,783.84)	—	
East ChinaPharmaceutical Co., Ltd.	126,842.76	—	—	—	
Guangzhou Lianjie Computer Technology Co., Ltd.	—	(120,576.45)	(250,000.00)	—	
Guangzhou Chinese Medicine Corporation					
Beijing Road Chinese Medicine Bazaar	218,399.05	—	58,399.05	—	
Golden Eagle Asset Management Co.	9,090,531.63	(667,161.68)	(10,909,468.37)	—	
Jihua Medical Apparatus Company Limited	1,652,543.29	(459,030.69)	(2,547,456.72)	—	
Guangzhou Jinshen Pharmaceutical Co., Ltd.	—	(82,521.47)	(765,000.00)	—	
China Everbright Bank	10,725,000.00	—	—	—	
Guoyao Group Industrial Co., Ltd.	8,000,000.00	—	—	—	
Beijing Gugong Gongyuan Co., Ltd.	200,000.00	—	—	—	
Guangzhou Nuocheng Bio-product Co., Ltd.	6,000,000.00	—	—	—	
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	—	—	—	
Guangzhou Pharmaceutical Football Club Co., Ltd.	8,348,571.52	(872,125.98)	(872,125.98)	—	
Bank of Communications	393,841.40	—	—	—	
Guangzhou Pangaoshou Natural Health Product Co., Ltd. (Consolidation variance)	890,194.74	—	—	—	[2]
Fujian Guanyao Jieda Co.Ltd. (Consolidation variance )	476,215.07	—	—	—	[5]
Guangzhou Bio-technology Co., Ltd. (Consolidation variance)	348,350.22	—	—	—	[4]
Guangzhou Huanye Pharmaceutical Co., Ltd. (Consolidation variance)	645,021.77	—	—	—	[3]
Guangxi Ying Kang Pharmaceutical Co., Ltd. (Consolidation variance )	508,567.74	—	—	—	[6]
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. (Consolidation variance )	698,988.63	—	—	—	[7]
	<u>52,477,574.25</u>	<u>(2,324,461.54)</u>	<u>(17,250,511.62)</u>	<u>1,078,551.23</u>	

Notes:

- 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.
- Consolidation variance of Guangzhou Pangaoshou Natural Health Product Co., Ltd. amounts to RMB 890,194.74, 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 80,926.84 and the accumulated amortization is RMB 1,100,691.20.

- 3 Consolidation variance of Guangzhou Huanye Pharmaceutical Co., Ltd. amounts to RMB 645,021.77, 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 49,617.06 and the accumulated amortization is RMB 347,319.42.
  - 4 Consolidation variance of Guangzhou Bio-technology Co., Ltd. amounts to RMB348,350.22, 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 RMB454,187.62. The current amortization is RMB22,709.38 and the accumulated amortization is RMB105,837.40.
  - 5 Consolidation variance of Fujian Guangyao Jieda Co., Ltd. is RMB476,215.07, 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 RMB29,305.55 and the accumulated amortization is RMB109,895.80.
  - 6 Consolidation variance of Guangxi Ying Kang Pharmaceutical Co., Ltd. is RMB508,567.74, 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 RMB32,810.82 and the accumulated amortization is RMB147,648.69.
  - 7 Consolidation variance of Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. is RMB698,988.63, 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 RMB45,586.21 and the accumulated amortization is RMB 212,735.66.
- (3) The closing balance of long-term equity investment decreases by 26.37% compared to the beginning balance, mainly because the Group has sold all the shares it holds in Foshan Nanfang Packaging Company Ltd. with the amount of RMB30,000,000.

## 12. Fixed assets and accumulated depreciation

Cost	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Houses & buildings	1,041,727,627.32	6,508,914.94	4,312,052.27	1,043,924,489.99
Machinery equipment	713,407,060.54	12,136,935.93	4,316,624.98	721,227,371.49
Vehicles	90,912,757.67	2,257,556.53	2,040,515.72	91,129,798.48
Electric equipment	31,421,082.26	491,605.77	2,730,288.06	29,182,399.97
Office equipment	75,650,516.80	6,238,277.34	1,844,310.45	80,044,483.69
Renovation of Fixed Assets	21,286,737.11	636,163.15	—	21,922,900.26
	<u>1,974,405,781.70</u>	<u>28,269,453.66</u>	<u>15,243,791.48</u>	<u>1,987,431,443.88</u>
Accumulated depreciation	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Houses & buildings	231,880,104.98	17,533,888.80	67,497.67	249,346,496.11
Machinery equipment	298,675,095.18	26,290,994.91	2,990,759.66	321,975,330.43
Vehicles	60,475,928.48	3,655,375.16	1,924,344.83	62,206,958.81
Electric equipment	17,655,014.01	603,198.78	486,628.33	17,771,584.46
Office equipment	41,839,104.33	6,257,398.27	1,614,371.78	46,482,130.82
Renovation of Fixed Assets	8,402,087.15	2,934,851.12	—	11,336,938.27
	<u>658,927,334.13</u>	<u>57,275,707.04</u>	<u>7,083,602.27</u>	<u>709,119,438.90</u>
Provision for impairment:	Beginning Balance	Current Addition	Current Decrease	Closing Balance
Houses & buildings	11,643,357.48	—	507,341.78	11,136,015.70
Machinery equipment	5,581,718.63	—	—	5,581,718.63
Vehicles	404,199.51	—	—	404,199.51
Electric equipment	264,526.78	—	—	264,526.78
Office equipment	8,512.15	—	—	8,512.15
	<u>17,902,314.55</u>	<u>—</u>	<u>507,341.78</u>	<u>17,394,972.77</u>

- (1) During the period, the amount of construction work in progress transferred into fixed assets is RMB 12,633,000.
- (2) As at June 30, 2006, the Group has pledged its fixed assets with net value of RMB56,100,000 for bank loans.
- (3) At the end of the period, the Group provided impairment provision for the fixed assets of RMB17,395,000 for the difference whose recoverable amount were lower than the book value owing to their technology obsolescence, physical damage or long idleness.

### 13. Construction work in progress

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

Project	Budget	Financing source	% of fund used to budget (%)
Relocation of Guangzhou Xingqun Pharmaceutical Company	243,688,046.72	Working capital and loan from financial institute	100
Manufacture workshop project at phase 3rd of Guangzhou Xingqun Pharmaceutical Company	16,835,778.76	Working capital	100
Production expansion project for oral liquid of Guangzhou Xingqun Pharmaceutical Company	6,700,000.00	Working capital	85
GMP improvement project on expansion project of grain of Guangzhou Xingqun Pharmaceutical Company	4,388,115.99	Working capital	99
Relocation of Yunpu workshop of Guangzhou Zhongyi Pharmaceutical Co., Ltd.	197,030,000.00	Working capital, loan from financial institute and government appropriation	99
Product technical alteration of Guangzhou Chenliji Pharmaceutical Factory	29,100,000.00	Working Capital and Stock Capital	92
Conghua base construction of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	118,840,000.00	Stock capital and government appropriation	96
Equipment installation of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	37,290,000.00	Stock capital and government appropriation	73
Prepayment for equipment of Guangzhou Jing Xintang Pharmaceutical Co., Ltd.	—	Working capital and Stock capital	—
GMP improvement project of Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	104,910,000.00	Loan from financial institute and special fund from treasury bond	104
Payment for 29th F and parking lot of Wuyang xincheng Plaza for Wanglaoji	8,404,709.58	Working capital	104
Wanglaoji ERP update project	2,438,268.86	Working capital	96
GMP Project of Guangzhou Chinese Medicine Corporation, Chinese Medicine Factory	5,000,000.00	Working capital	94
Equipment installation B of Guangzhou Bio-technology Co., Ltd.	20,070,000.00	Working capital	75
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	18,867,641.45		—

- (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 Manufacture workshop project at phase 3 rd of Guangzhou Xingqun Pharmaceutical Company	1,048,016.66	919,180.29	1,208,921.78	119,570.86	638,704.31
Production expansion project for oral liquid of Guangzhou XingQun Pharmaceutical co.	205,619.44	166,504.86	—	—	372,124.30
GMP improvement project on expansion project of grain of Guangzhou Xingqun Pharmaceutical Company	5,688,084.20	37,435.30	—	—	5,725,519.50
Relocation of Yunpu workshop of Guangzhou Zhongyi Pharmaceutical Co., Ltd.	4,188,115.99	175,000.00	—	—	4,363,115.99
Product technical alteration of Guangzhou Chenlijii Pharmaceutical Factory	4,833,690.67	1,914,363.05	490,715.00	906,560.00	5,350,778.72
Conghua base construction of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	1,135,578.57	3,517,659.19	514,135.68	—	4,139,102.08
Equipment installation of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	86,214,850.74	4,081,592.42	—	826,798.00	89,469,645.16
Prepayment for equipment of Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	24,697,357.50	2,432,563.37	—	—	27,129,920.87
GMP improvement project of Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	522,887.22	703,583.07	417,098.00	—	809,372.29
Payment for 29th F and parking lot of Wuyang xincheng Plaza for Wanglaoji	2,803,288.00	2,245,612.00	2,877,488.00	—	2,171,412.00
Wanglaoji ERP update project	4,202,354.79	4,500,927.07	—	—	8,703,281.86
GMP project of Guangzhou Chinese Medicine Corporation, Chinese Medicine Factory	1,251,104.64	1,099,089.91	—	—	2,350,194.55
Equipment installation B of Guangzhou Bio-technology Co., Ltd.	81,031.70	229,437.00	229,437.00	81,031.70	—
GMP reconstruction project of Guangxi Ying Kang Pharmaceutical Co., Ltd.	9,373,853.59	5,777,120.01	1,218,044.00	—	13,932,929.60
Warehouse project of Guangzhou Qixing Pharmaceutical Co., Ltd.	370,180.00	73,470.00	—	—	443,650.00
Others	6,195,707.86	1,502,711.84	—	—	7,698,419.70
	7,228,683.95	8,684,495.92	5,677,296.88	739,171.17	9,496,711.82
	<u>160,040,405.52</u>	<u>38,060,745.30</u>	<u>12,633,136.34</u>	<u>2,673,131.73</u>	<u>182,794,882.75</u>

- (3) 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 consequently.
- (4) As at 30 June 2006, there was no capitalised interests included in construction in progress. The amount of capitalized interest expenses included.

## 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	—	474
Land use right of former workshop at Renmin Road	Purchase	2,686,602.00	—	474
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,600,547.00	—	444
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3 of Zhongshanba Road	Purchase	1,392,144.00	—	169
Land use right of Guangzhou Yunpu Industry District	Purchase	2,255,182.58	—	553
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	—	503
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	—	494
Land use right of Songgang Factory	Purchase	3,861,957.56	—	450
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	—	439
Land use right of Panyu Dongsha Development Distric	Purchase	15,947,019.00	—	474
Land use right of Jiangcun workshop in Guangzhou Baiyun District	Purchase	1,916,553.13	—	492
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	Purchase	3,509,041.00	—	373
Land use right of No. 136-138 of He Ping West Road	Purchase	1,535,744.00	—	373
Land use right of No.328 in Beijing Road	Purchase	1,306,988.00	—	72
Land use right of No.103 of Da Tong Road	Land appraisal appreciation	17,928,863.00	—	373
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	480,700.24	473
Land use right of No.85 of Shang Jiu Road	Purchase	2,973,460.00	—	402
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	—	491
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	Investment	3,315,488.00	—	510
Land use right of No. 5 of Panyu Dongsheng District	Purchase	2,896,279.62	—	450
Malotilate emulsion technology	Purchase	1,500,000.00	—	87
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	Purchase	5,081,734.55	—	35
Trademark of Guangzhou Pharmaceutical	Investment	3,807,722.31	—	97
Marketing network and trademark of Hubei Ankang Co.	Investment	1,200,000.00	—	93
Others		11,129,278.57	485,451.22	2-630
		<u>128,045,069.22</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.



(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	3,610,122.97	—	—	44,188.83	735,111.86	3,565,934.14
Land use right of former workshop at Renmin Road	2,201,098.97	—	—	27,414.31	512,917.34	2,173,684.66
Land use right of No.19-29 of Ningxiheng Street	1,305,233.99	—	—	17,210.18	312,523.19	1,288,023.81
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3 of Zhongshanba Road	1,064,468.00	—	—	34,332.00	362,008.00	1,030,136.00
Land use right of Guangzhou Yunpu Industry District	2,162,344.86	—	—	23,209.44	116,047.16	2,139,135.42
Land use right of No. 194 of Beijing Road	2,009,393.91	—	—	23,625.81	376,812.98	1,985,768.10
Land use right of No. 1688 of Southern Guangzhou Avenue	22,505,144.92	—	—	270,061.74	4,771,090.74	22,235,083.18
Land use right of Songgang Factory	1,686,622.21	—	—	22,192.38	2,197,527.73	1,664,429.83
Land use right of Nanhai Huangqi	3,064,361.90	—	—	41,317.26	1,066,955.36	3,023,044.64
Land use right of Panyu Dongsha Development District	13,095,047.24	—	—	159,470.19	3,011,441.95	12,935,577.05
Land use right of Jiangcun workshop in Guangzhou Baiyun District	1,413,215.31	—	—	17,029.59	520,367.41	1,396,185.72
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	2,995,329.75	—	—	47,419.50	561,130.75	2,947,910.25
Land use right of No. 136-138 of He Ping West Road	1,310,916.80	—	—	20,753.28	245,580.48	1,290,163.52
Land use right of No.328 in Beijing Road	1,034,699.00	—	—	16,337.34	288,626.34	1,018,361.66
Land use right of No.103 of Da Tong Road	13,801,592.96	—	—	247,636.20	4,383,370.74	13,553,956.76
Land use right of B area of Xin Zhou Warehouse	2,180,043.94	—	—	21,241.80	517,338.86	2,158,802.14
Land use right of No.85 of Shang Jiu Road	2,314,055.82	—	—	33,038.46	692,442.64	2,281,017.36
Land use right of No.12 of Fangcun Sai Ba Road	1,462,950.55	—	—	17,645.22	319,217.57	1,445,305.33
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	1,509,547.68	—	—	17,552.88	1,823,493.20	1,491,994.80
Land use right of No. 5 of Panyu Dongsheng District	2,145,856.70	—	—	30,390.60	780,813.52	2,115,466.10
Malotilate emulsion technology	1,162,500.00	—	—	69,000.00	406,500.00	1,093,500.00
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	3,784,073.17	—	—	539,173.44	1,836,834.82	3,244,899.73
Trademark of Guangzhou Pharmaceutical	3,268,294.97	—	—	190,386.12	729,813.46	3,077,908.85
Marketing network and trademark of Hubei Ankang Co.,	990,000.00	—	—	60,000.00	270,000.00	930,000.00
Others	7,566,919.64	789,545.00	—	344,476.61	3,117,290.54	8,011,988.03
	<u>99,643,835.26</u>	<u>789,545.00</u>	<u>—</u>	<u>2,335,103.18</u>	<u>29,955,256.64</u>	<u>98,098,277.08</u>

**15. Long-term Prepayments**

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

Item	Amortization period	Cost	Remaining amortization period
Renovation	5 Years	37,834,933.57	1 to 5 years
Installation of telephone	5 Years	2,756,400.00	None
ERP system	5 Years	6,512,246.25	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	None
Transitional medical fund for retired staff	10 Years	3,049,676.46	6 years and 2 months
CI Design	10 Years	264,800.00	10 years
Chinese-medicine protection fee of Weichangning	7 Years	553,679.70	6 years and 6 months
Others	2-5 years	4,762,393.55	1 to 5 years
		<u>62,809,823.31</u>	

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

Item	Beginning Balance	Current Addition	Current Amortization	Accumulated Amortization	Closing Balance
Renovation	8,374,226.33	595,958.32	2,449,373.73	31,314,122.65	6,520,810.92
Installation of telephone	12,159.34	—	12,159.34	2,756,400.00	—
ERP system	827,499.40	325,000.00	498,139.16	5,857,886.01	654,360.24
Computer system	704,243.60	—	189,847.00	1,644,851.40	514,396.60
GMP project improvement	457,507.02	—	63,125.60	2,107,564.36	394,381.42
Medical fund for retired staff	112,783.09	—	112,783.09	2,414,500.00	—
Transitional medical fund for retired staff	1,959,417.34	—	180,243.16	1,270,502.28	1,779,174.18
CI Design	264,800.00	—	16,550.00	16,550.00	248,250.00
Chinese-medicine protection fee of Weichangning	553,679.70	—	39,548.55	39,548.55	514,131.15
Others	1,765,266.87	424,304.34	384,216.77	2,957,039.11	1,805,354.44
	<u>15,031,582.69</u>	<u>1,345,262.66</u>	<u>3,945,986.40</u>	<u>50,378,964.36</u>	<u>12,430,858.95</u>

**16. Short-term loans**

	Closing Balance	Beginning Balance
Loan by credit	<b>140,000,000.00</b>	45,586,020.0
Loan by mortgage and pledge	<b>162,448,832.77</b>	254,199,348.60
Loan by guaranty	<b>539,000,000.00</b>	568,000,000.00
	<u><b>841,448,832.77</b></u>	<u>867,785,368.60</u>

**17. Notes payable**

	Closing Balance	Beginning Balance
Bank acceptance bill	<b>13,626,701.00</b>	34,728,030.03
Trade acceptance bill	<b>82,120,821.17</b>	51,280,033.35
	<u><b>95,747,522.17</b></u>	<u>86,008,063.38</u>

**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.

**20. Dividend payable**

	Closing Balance	Beginning Balance
Dividend to state-owned shares	33,272,000.00	—
Dividend to domestic public shares	7,097,998.88	—
Dividend to overseas public shares	15,406,327.76	24,739.37
Dividend to minor shareholders	6,947,408.50	1,753.52
	<u>62,723,735.14</u>	<u>26,492.89</u>

The closing balance of dividend payable increases dramatically compared to the beginning balance, mainly because the Group has declared but not paid the dividend for the year 2005.

**21. Taxes payable**

	Closing Balance	Beginning Balance
Business tax	301,528.53	537,448.97
Value added tax	21,895,253.36	(7,110,797.17)
City construction tax	1,388,601.56	933,086.59
Enterprise income tax	28,812,532.31	25,360,418.09
Property tax	1,115,391.18	335,299.76
Withholding tax	559,491.19	4,111,600.03
Others	770,209.01	210,357.34
	<u>54,843,007.14</u>	<u>24,377,413.61</u>

The closing balance of taxes payable increases by 124.97% compared to the beginning balance, mainly because operation income increases and the value-added tax output is more than the input.

**22. Other liabilities**

	<i>Note</i>	Closing Balance	Beginning Balance
Education surcharge	(1)	599,827.37	402,995.72
Flood prevention levy	(2)	3,961,111.87	3,175,229.22
Others		2,043.33	50,432.72
		<u>4,562,982.57</u>	<u>3,628,657.66</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.

## 23. Other Payables

(1) Breakdown for closing balance of other payables:

Item	Closing Balance	Beginning Balance
Security money, deposit and down payment	19,707,817.23	14,442,530.49
Technology improvement	6,624,052.07	2,348,999.17
Rental	2,040,350.72	—
Labor union fund	1,845,812.92	1,739,109.68
Staff education fund	12,969,675.71	11,878,877.69
Current accounts with external companies	36,712,750.52	32,182,833.66
Tax addition and government levies	332,452.69	292,400.67
Advance from staff	1,301,082.43	2,005,242.03
Labor insurance	869,460.52	1,208,250.77
Monetary subsidies of staff housing	14,774,228.38	19,276,096.54
Staff bonus and welfare fund	406,504.06	2,460,141.54
Payables to Guangzhou Pharmaceutical Holdings Limited	25,977,438.41	25,468,086.39
Payables to Bank of Communications Guangzhou Branch (Collected on behalf)	68,737,278.61	58,923,524.00
Management Bonus	1,672,340.18	1,672,340.18
Estimated payment for fixed assets	3,868,729.98	6,880,152.57
Others	15,053,192.92	10,365,613.63
	<u>212,893,167.35</u>	<u>191,144,199.01</u>

(2) Among the closing balance, the amount payable to the shareholder who holds 5% or more voting shares is RMB25,977,438.41, which is payable to the Holding.

## 24. Accrued expenses

Item	Closing balance	Beginning balance
Interest on loans	1,567,624.08	1,255,628.75
Rental	2,132,151.24	1,836,899.84
Agency expenses	2,709,140.70	2,430,164.70
Advertising expenses	17,342,277.50	3,835,218.44
Insurance premium	600,000.00	—
Electricity and water costs	2,310,272.99	759,970.24
Transportation costs	—	673,397.84
Meeting expenses	2,295,420.32	—
Promotion expenses	9,287,491.55	—
Others	5,244,490.00	3,428,821.77
	<u>43,488,868.38</u>	<u>14,220,101.58</u>

The closing balance of accrued expenses increases by 205.83% compared with the beginning balance, mainly because of the increasing unpaid but implemented advertising expenses and promotion expenses.

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

	Closing balance	Beginning balance
Loan by credit	<u>30,000,000.00</u>	<u>50,000,000.00</u>

The long-term liabilities due within 1 year decrease by 40% compared to the beginning balance, mainly because the subsidiary of the Group Guangzhou Zhongyi Pharmaceutical Company Limited has paid the loan with the amount of RMB20,000,000.

## 26. Long-term payables

Debtor	Content	Closing Balance	Beginning Balance
Guangzhou Finance Bureau	State dividends	2,169,019.06	2,170,889.31
Finance Department of Guangxi Zhuang Municipality	Payable for transferring equity interest	2,264,426.47	2,264,426.47
Others		281,411.85	281,412.43
		<b>4,714,857.38</b>	<b>4,716,728.21</b>

## 27. Special payables

Item	Closing balance	Beginning balance
Government appropriations as science and technology fund	45,025,658.54	45,758,891.04
Interest subsidies of government	2,460,345.00	3,286,905.00
Special fund for technology export	365,876.05	506,678.78
GMP relocation project-draining project	556,874.40	556,874.56
	<b>48,408,753.99</b>	<b>50,109,349.38</b>

## 28. Share capital

Name of shareholder	Beginning Balance	Current Increase	Current Decrease	Closing Balance
State-owned shares	513,000,000.00	—	23,400,000.00	489,600,000.00
Domestic common shares	78,000,000.00	23,400,000.00	—	101,400,000.00
Overseas common shares	219,900,000.00	—	—	219,900,000.00
	<b>810,900,000.00</b>	<b>23,400,000.00</b>	<b>23,400,000.00</b>	<b>810,900,000.00</b>

(1). 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.

(2). The Company has implemented share merger reform in April 2006. The non-tradeable shareholders agree to pay the considerations to the tradable ones so that all their holding non-tradable shares could be traded in the A share market. The detailed plan is as follow: the shareholders of the tradable A shares are paid 3 shares for every 10 shares they hold. Therefore, 23,400,000 state-owned shares are paid to the A shareholders in the reporting period.

## 29. 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	2,605,049.96	—	—	2,605,049.96	
Receipt of cash donation	219,652.84	—	—	219,652.84	
Reserve of equity investment	19,115,775.92	16,688.40	—	19,132,464.32	(1)
Transfer from appropriations	19,203,964.37	70,400.00	—	19,274,364.37	(2)
Other capital surplus	193,928,649.01	235,389.48	—	194,164,038.49	(3)
Exchange gain on foreign currency capital	373,893.09	—	—	373,893.09	
	<b>1,149,453,755.66</b>	<b>322,477.88</b>	<b>—</b>	<b>1,149,776,233.54</b>	

The reasons for the movements of capital surplus:

- (1) Jihua Medical Apparatus and Instruments Co., Ltd. which is invested by the Group, has increased its capital surplus in the current period and therefore the Group increase the capital surplus by RMB16,688.40 according to the proportion of equity interest.
- (2) Upon the accomplishment of the research and development programs, the special appropriations from the government with an amount of RMB70,400 are transferred from Special Payables into Capital Surplus.
- (3) The Group transfers the unpaid payables, amounting to RMB235,389.48, into the Capital Surplus.

### 30. Surplus reserve

	Beginning Balance	Current Increase	Current Decrease	Closing Balance	Note
Statutory surplus reserve	253,770,252.85	—	859,831.47	252,910,421.38	
Statutory public welfare fund	179,461,575.56	—	179,461,575.56	—	(1)
Discretionary surplus reserve	129,038,018.69	179,048,689.26	614,070.80	307,472,637.15	(2)
Transfer from tax exemption	4,973,493.07	—	—	4,973,493.07	
	<u>567,243,340.17</u>	<u>179,048,689.26</u>	<u>180,935,477.83</u>	<u>565,356,551.60</u>	

The reasons for the movements of surplus reserve:

- (1) Pursuant to the new Company Law and the document issued by the Ministry of Finance of PRC with reference CQ[2006]No.67, companies should transfer the balance of welfare fund as at December 31, 2005 into surplus reserve. The Group has transferred the statutory surplus reserve with an amount of RMB179,048,689.26 into discretionary surplus reserve.
- (2) The subsidiary Guangzhou Chinese Medicine Corporation wholesale department of Medicine Powder and Chinese Medicine has finished its liquidation and transferred the statutory surplus reserve of RMB859,831.47, statutory public welfare fund of RMB412,886.30 and discretionary surplus reserve of RMB614,070.80, totally amounting to RMB1,886,788.57, into the retained earnings.

### 31. Retained earnings

- (1) Please refer to Statement 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 2005, the Company allocated 0.07 per share. Therefore the total dividends allocated for the year 2005 in 2006 summed up to RMB56,763,000 at the total share of 810,900,000.

### 32. Sales from principal operations

	Current Cumulated	Last Cumulated
(1) Manufacturing and selling	<u>1,260,518,819.25</u>	1,140,258,775.85
(2) Trading	<u>3,933,473,523.19</u>	3,455,913,235.42
Wholesale	<u>3,625,042,726.75</u>	3,208,995,655.80
Retail	<u>183,049,111.57</u>	148,734,546.90
Import & export sales	<u>125,381,684.87</u>	98,183,032.72
	<u>5,193,992,342.44</u>	<u>4,596,172,011.27</u>

The total sales from the top 5 customers is RMB345,943,000, representing 6.63% of the total sales.

<b>33. Cost of principal operations</b>		<b>Current Cumulated</b>	<b>Last Cumulated</b>
(1)	Manufacturing and selling	<u>593,843,812.17</u>	<u>532,579,333.25</u>
(2)	Trading	<u>3,681,378,925.89</u>	<u>3,248,532,900.71</u>
	Wholesale	<u>3,421,087,432.90</u>	<u>3,039,556,296.54</u>
	Retail	<u>143,287,328.74</u>	<u>118,009,308.20</u>
	Import & export sales	<u>117,004,164.25</u>	<u>90,967,295.97</u>
		<u><b>4,275,222,738.06</b></u>	<u><b>3,781,112,233.96</b></u>
<b>34. Sales taxes and levies</b>		<b>Current Cumulated</b>	<b>Last Cumulated</b>
	Business tax	<u>397,417.94</u>	<u>198,321.44</u>
	City construction tax	<u>10,017,285.16</u>	<u>9,344,875.89</u>
	Education surcharge	<u>4,248,727.45</u>	<u>4,033,764.44</u>
	Others	<u>13,516.40</u>	<u>24,217.83</u>
		<u><b>14,676,946.95</b></u>	<u><b>13,601,179.60</b></u>
<b>35. Profit from other operations</b>		<b>Current Cumulated</b>	<b>Last Cumulated</b>
(1)	Revenue from other operations		
	Lease of Assets	<u>18,577,141.53</u>	<u>18,756,840.18</u>
	Sales of material	<u>1,481,191.06</u>	<u>514,870.67</u>
	Management expense of allied stores	<u>205,270.30</u>	<u>165,958.00</u>
	Revenue from trademark	<u>2,750,750.59</u>	<u>662,515.09</u>
	Consultancy income	<u>839,720.60</u>	<u>2,188,906.44</u>
	Income from agency commission	<u>72,031.27</u>	<u>—</u>
	Income from medicine shelf arrangement fees	<u>2,449,132.77</u>	<u>—</u>
	Others	<u>2,144,612.50</u>	<u>2,741,485.42</u>
		<u><b>28,519,850.62</b></u>	<u><b>25,030,575.80</b></u>
(2)	Cost of other operations		
	Lease and depreciation of assets	<u>452,172.01</u>	<u>552,627.88</u>
	Sales of material	<u>930,341.80</u>	<u>666,007.61</u>
	Tax and surcharges	<u>2,648,533.72</u>	<u>2,506,736.81</u>
	Others	<u>164,345.34</u>	<u>263,615.95</u>
		<u><b>4,195,392.87</b></u>	<u><b>3,988,988.25</b></u>
	Profit from other operations	<u><b>24,324,457.75</b></u>	<u><b>21,041,587.55</b></u>

**36. Financial expenses**

	Current Cumulated	Last Cumulated
Net interest expenses	16,814,696.35	22,922,254.84
Exchange loss or gain	(305,102.13)	59,030.24
Financial institution charges	4,158,830.37	1,839,716.52
Others	1,126,384.27	1,605.59
	<u>21,794,808.86</u>	<u>24,822,607.19</u>

**37. Investment income**

	Current Cumulated	Last Cumulated
Debenture investment	(538,905.49)	(83,086.32)
Fund investment	4,976,837.00	—
Profit from associate enterprises or joint-ventures	4,502,255.00	2,984,370.92
Net increase or decrease of stock investment under equity method	(2,585,417.40)	(1,425,328.87)
Provision for impairment of investment	1,048,000.00	(5,452,000.00)
Disposal income of equity investment	(216,576.40)	—
	<u>7,186,192.71</u>	<u>(3,976,044.27)</u>

The current investment income increases by 280.74% compared with that of last year, mainly due to the income from the sold Golden Eagle Fund for the price of RMB4,977,000 in the reporting period.

**38. Non-operating income**

	Current Cumulated	Last Cumulated
Net profit from disposal of fixed assets	51,625.37	158,840.30
Sales of obsolete material	15,687.74	106,603.88
Fine and overdue	66,262.16	25,022.95
Compensation for dismantling	2,634,292.98	166,443.86
Dormitory rental from staff	—	28,712.76
Others	157,107.62	162,532.78
	<u>2,924,975.87</u>	<u>648,156.53</u>

The current cumulated non-operating income increases by 351.28% compared to that of last year, mainly because the subsidiary Guangzhou Chinese Medicine Corporation has received the compensation for the resettlement of the Caizhilin store with an amount of RMB2,634,000.

**39. Non-operating expenses**

	Current Cumulated	Last Cumulated
Net loss on of fixed assets	814,429.77	500,745.34
Provision for impairment of assets	—	758,952.88
Reversal of impairment provision of fixed assets	(507,341.78)	—
Donation	483,152.53	724,241.17
Fine and overdue	2,184,202.88	388,722.83
Unusual loss	—	253,848.72
Family	263,702.02	402,084.16
Shortage of fixed assets	650.00	—
Others	415,920.75	29,503.49
	<u>3,654,716.17</u>	<u>3,058,098.59</u>



## 40. Extraordinary gain or loss

	Current Cumulated	Amount (RMB'000) Last Cumulated
Gain or loss from disposal of long-term equity investment	649	(342)
Government subsidies	397	189
Gain or loss from short-term investment	4,990	(6,111)
Other non-operating expenses than provision for assets impairment	(550)	(1,309)
Gain or loss of consignment investment	(551)	—
Reversal of provision for impairment accrued in previous years	1,555	659
Impact of income tax	(2,218)	178
Impact of minority interest	(115)	273
	<u>4,157</u>	<u>(6,463)</u>

## 41. Other cash received relating to operating activities

Main item	Amount (RMB'000)
Non-operating income	2,925
Interest income	3,787
Income from other operations	28,520
Deposits	5,265
Compensation from government	1,047
	<u>41,544</u>

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

Main item	Amount (RMB'000)
Operating expenses paid in cash	251,379
General & administration expenses paid in cash	117,886
Charges of financial institutions	4,159
Other operating expenses	4,195
Non-operating expenses	3,347
	<u>380,966</u>

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

(1) Aging analysis of accounts receivable as at June 30,2006

Aging	Closing Balance			
	Balance	%	Bad debts Provision	Provision Proportion (%)
Within 1 year	33,522,266.91	100	378,400.55	1.13
	<u>33,522,266.91</u>	<u>100</u>	<u>378,400.55</u>	<u>1.13</u>

(2) The biggest 5 closing balance of accounts receivable are totally RMB12,569,017.08, representing 37.49% of the total accounts receivables.

**2. Other receivables**

Aging analysis of other receivables as at June 30,2006

Aging	Closing Balance			
	Balance	%	Bad debts Provision	Provision Proportion (%)
Within 1 year	41,465,598.07	21.56	—	—
1~2 years	43,424.07	0.02	—	—
2~3 years	32,666,737.56	16.97	—	—
3~4 years	50,368,000.00	26.17	—	—
4~5 years	21,494,596.76	11.17	—	—
Over 5 years	46,402,843.54	24.11	502,043.54	1.08
	<u>192,441,200.00</u>	<u>100</u>	<u>502,043.54</u>	<u>0.26</u>
Aging	Beginning 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>	<u>100</u>	<u>502,043.54</u>	<u>0.30</u>

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 RMB4,068,000.

## 3. Long-term equity investments

Name of investee	Original investment	Stock proportion to the investee (%)	Accumulated Increase (Decrease) of the equity	Closing Balance
Guangzhou Xingqun Pharmaceutical Co., Ltd.	125,322,318.71	88.99	64,111,786.75	189,434,105.46
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	156,209,321.79	90.36	188,922,811.49	345,132,133.28
Guangzhou Chenliji Pharmaceutical Factory	117,310,759.19	100.00	103,700,795.17	221,011,554.36
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	89,480,000.00	70.04	(28,417,126.26)	61,062,873.74
Guangzhou Qixing Pharmaceutical Factory	126,775,482.62	100.00	55,934,916.51	182,710,399.13
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,814.94	88.40	1,391,115.77	102,880,930.71
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	144,298,132.51	87.77	19,633,352.82	163,931,485.33
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	102,035,124.44	48.05	65,825,624.16	167,860,748.60
Guangzhou Pharmaceuticals Corporation	230,189,155.53	90.09	160,681,557.12	390,870,712.65
Guangzhou Chinese Medicine Corporation	74,378,883.83	100.00	(52,703,114.98)	21,675,768.85
Guangzhou Pharmaceutical Import & Export Corporation	18,557,328.73	100.00	4,212,589.97	22,769,918.70
Guangzhou Huanye Pharmaceutical Co., Ltd.	15,331,246.76	59.70	(882,676.55)	15,093,591.98
Guangzhou Bio-Technology Co., Ltd.	80,000,000.00	95.69	(27,007,764.26)	53,340,586.02
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	3,888,713.99	51.00	(608,657.47)	3,979,045.15
Guangxi Ying Kang Pharmaceutical Co., Ltd.	21,717,000.00	51.00	(5,424,345.86)	16,801,221.88
Golden Eagle Asset Management Co., Ltd.	20,000,000.00	20.00	(10,909,468.37)	9,090,531.63
Jihua Medical Apparatus Company Limited	4,200,000.00	24.00	(2,547,456.72)	1,652,543.28
Guangzhou Jinshen Pharmaceutical Co., Ltd.	765,000.00	38.25	(765,000.00)	—
China Everbright Bank	10,725,000.00	—	—	10,725,000.00
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
	<u>1,480,873,283.04</u>		<u>535,148,939.35</u>	<u>1,988,223,150.75</u>

## 4. Investment income

Item	Current Cumulated	Last Cumulated
Debenture investment	<b>12,898.66</b>	
Gains from consignment loans	<b>8,841,422.13</b>	1,362,353.61
Fund investment	<b>4,976,837.00</b>	—
Profit from associate enterprises or joint-ventures	<b>4,486,255.00</b>	2,983,850.00
Net increase or decrease of equity investment under equity method	<b>137,175,625.16</b>	123,826,082.88
Provision for impairment of investment	<b>1,048,000.00</b>	(5,452,000.00)
	<u><b>156,541,037.95</b></u>	<u>122,720,286.49</u>

## 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	Xu Jian
Guangzhou Chenlijing Pharmaceutical Factory	No. 1688, Guangzhou Avenue South, Guangzhou	Production and sales	Subsidiary	State-owned holding company	Ouyang Qiang
Guangzhou Qixing Pharmaceutical Factory	No. 33, Chigang North Street, Xingang Central Road, Guangzhou	Production and sales	Subsidiary	State-owned holding company	Wen Xinwen
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.	Dongshen Industry District, 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. 85 Of Shangjiu Road, Guangzhou	Wholesale and retail	Subsidiary	State-owned holding company	Zhou Lushan
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	Huang Jianjun
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

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

Unit: RMB'000

Company name	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Guangzhou Pharmaceutical Holdings Limited	1,007,700	—	—	1,007,700
Guangzhou Xingqun Pharmaceutical Co., Ltd.	77,170	—	—	77,170
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	—	—	166,000
Guangzhou Chenliji Pharmaceutical Factory	112,850	—	—	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	75,030	—	—	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.	83,600	—	—	83,600
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	18,410	—	—	18,410
Guangxi Ying Kang Pharmaceutical Co., Ltd.	31,880	—	—	31,880

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

Unit: RMB'000

Company name	Beginning Balance		Current Increase		Current Decrease		Closing Balance	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Guangzhou Pharmaceutical Holdings Limited	491,000	60.55	—	—	22,400	2.76	468,600	57.79
Guangzhou Xingqun Pharmaceutical Co., Ltd.	68,670	88.99	—	—	—	—	68,670	88.99
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	150,000	90.36	—	—	—	—	150,000	90.36
Guangzhou Chenliji Pharmaceutical Factory	112,850	100	—	—	—	—	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	75,030	100	—	—	—	—	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.	80,000	95.69	—	—	—	—	80,000	95.69
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	93,880	51.00	—	—	—	—	93,880	51.00
Guangxi Ying Kang Pharmaceutical Co., Ltd.	16,260	51.00	—	—	—	—	16,260	51.00

## 4. Related parties with jointly controlled entities

Company name	Registered address	Principal business	Relationship with the Company	Economic nature and type	Legal representative
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	No.831 Of Guanghua Road 2, Baiyun District, Guangzhou	Production and sales	Jointly controlled entities	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	Jointly controlled entities	Company with limited liabilities	Tan Liqing
Guangzhou Pharmaceutical Football Club Co., Ltd.	45, Shanmian North street, Liwan District, Guangzhou	Sports, advertisement	Jointly controlled entities	Company with limited liabilities	Yang Rongming

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

Unit: RMB'000

Company name	Beginning Balance	Current Increase	Current Decrease	Closing Balance
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	204,760	—	—	204,760
Guangzhou Lianjie Computer Technology Co., Ltd.	500	—	—	500
Guangzhou Pharmaceutical Football Club Co., Ltd.	—	20,000	—	20,000

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

Unit: RMB'000

Company name	Beginning Balance		Current Increase		Current Decrease		Closing Balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Guangzhou Wanglaoji Pharmaceutical Co.,	98,380	48.0465	—	—	—	—	98,380	48.0465
Guangzhou Lianjie Computer Technology Co., Ltd.	250	50	—	—	—	—	250	50
Guangzhou Pharmaceutical Football Club Co., Ltd.	—	—	9,220	42.40	—	—	9,220	42.40

## 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
Guangzhou South-china Medical Appliance Co., Ltd.	Fellow subsidiary
Baolian Development Co., Ltd.	Fellow subsidiary
Guangzhou Medical Industry Research Center	Fellow subsidiary
Guangzhou Guangyao Real Estate Industry Co., Ltd.	Fellow subsidiary
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary
Guangzhou Baiyunshan Chemistry Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Pharmaceutical Economic Development Company	Fellow subsidiary
Guangzhou Lianjie Computer Technology Co., Ltd.	Jointly controlled entity
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Jointly controlled entity
Guangzhou Pharmaceutical Football Club Co., Ltd.	Jointly controlled entity

The following related party transactions with the cooperatively run enterprise represents the part belong to other shareholders in the companies.

## (2) Purchase of goods

Unit: RMB '000

Company name	Current Cumulated	last Cumulated
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	10,180	16,403
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	16,473	19,467
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	19,620	18,686
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	12,322	4,193
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	36,589	34,871
Guangzhou South-china Medical Appliance Co., Ltd.	13	11
Baolian Development Co., Ltd.	60,727	54,141
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	46,095	12,514
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	34,660	20,532
Guangzhou Baiyunshan Pharmaceutical Factory	25,918	25,935
Guangzhou Baiyunshan Chemistry Medicine Factory	1,184	429
Guangzhou Baiyunshan External Use Medicine Factory	3,671	1,339
Guangzhou Pharmaceutical Goods and Supply Company	—	59
Guangzhou Medical Industry Research Center	1	—
	<u>267,453</u>	<u>208,580</u>

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

## (3) Sales of goods

*Unit: RMB'000*

Company name	Current Cumulated	Last Cumulated
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	32,998	23,764
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	9,544	5,144
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	7,492	10,763
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	1,629	732
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	31,509	22,277
Guangzhou Medicine Research Center	2,918	5
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	21,234	6,170
Guangzhou Baiyunshan Pharmaceutical Factory	10,310	11,050
Guangzhou Baiyunshan Chemistry Medicine Factory	1,784	13,620
Guangzhou Baiyunshan External Use Medicine Factory	715	1,898
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	2,484	9,592
	<b>122,617</b>	<b>105,015</b>

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

## (4) Receivables and payables

*Unit: RMB'000*

	Closing Balance	Beginning Balance
<b>Accounts receivable:</b>		
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	41,810	26,468
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	2,851	1,714
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	1,482	1,842
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	512	238
Guangzhou Guanghua Pharmaceutical Co., Ltd.	3,780	2,895
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	3,186	2,268
Guangzhou Baiyushang Heji Huangpu Pharmaceutical Co., Ltd.	216	1,777
Guangzhou Baiyunshan Pharmaceutical Factory	4,496	4,224
Guangzhou Baiyunshan Chemistry Medicine Factory	79	1,208
Guangzhou Baiyunshan External Use Medicine Factory	478	170
<b>Accounts payable:</b>		
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	1,889	1,632
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	3,604	2,293
Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd.	3,523	206
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	2,848	524
Guangzhou Guanghua Pharmaceutical Co., Ltd.	5,310	740
Guangzhou South-china Medical Appliance Co., Ltd.	29	11
Baolian Development Co., Ltd.	49,269	49,750
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	5,490	148
Guangzhou Baiyunshan Pharmaceutica Factory	4,457	10
Guangzhou Baiyunshan External Use Medicine Factory	462	292
Guangzhou Baiyushang Heji Huangpu Pharmaceutical Co., Ltd.	7,556	2,046
Guangzhou Pharmaceutical Economic Development Company	—	17
Guangzhou Baiyunshan Chemistry Medicine Factory	455	—



	<i>Unit: RMB'000</i>	
	Closing Balance	Beginning Balance
<b>Other receivables:</b>		
Guangzhou Pharmaceutical Holdings Limited	4,439	5,060
Guangzhou South-china Medical Appliance Co., Ltd.	100	100
Baolian Development Co., Ltd.	6	7,993
Guangzhou Lianjie Computer Technology Co., Ltd.	420	520
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	2,051	—
<b>Other payables:</b>		
Guangzhou Pharmaceutical Holdings Limited	25,977	25,468
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	97	97
Guangzhou Pharmaceutical Goods and Supply Company	3,000	3,000
<b>Advance to suppliers</b>		
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	2,288	197
Guangzhou Guanghua Pharmaceutical Co., Ltd.	6,045	—
Guangzhou Baiyunshan Chemistry Medicine Factory	200	—
Guangzhou Baiyunshan External Use Medicine Factory	72	—
Guangzhou Pharmaceutical Goods and Supply Company	4	—
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	44	—
<b>Advance from customers</b>		
Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd.	—	22
Guangzhou Baiyunshan Mingxing Pharmaceutical Co., Ltd.	—	279
Guangzhou Baiyunshan Hejigong Pharmaceutical Co., Ltd.	—	91
Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	—	1
Guangzhou Baiyunshan Heji Huangpu Pharmaceutical Co., Ltd.	—	300
Guangzhou Baiyunshan Pharmaceutica Factory	242	—
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	—	176
	<u>          </u>	<u>          </u>

## (5) Receipt of services

Item	Note	<i>Unit: RMB'000</i>	
		Current Cumulated	Last Cumulated
Service fee on staff housing	1	129	129
Comprehensive service fee	2	458	431
Advertisement and promotion expenses for Guangyao football club		13,189	—
		<u>13,776</u>	<u>560</u>

## Notes:

- 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.
- 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 RMB1,409,000 in the current period (last cumulated: RMB1,642,000).

(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 from 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 RMB5,265,000 in the current period (last cumulated: RMB5,848,000).

(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 rental 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 6,000 thousand 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 RMB4,068,000 by June 30, 2006.

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

As at June 30, 2006, there are no guaranties for external companies.

**2. The Company**

As at June 30, 2006, the Company has provided guaranties for the following subsidiaries:

*Unit: RMB'000*

Company guaranteed	Guaranty content	Amount	Guaranty Period
Guangzhou Pharmaceuticals Corporation	Loan of working capital	370,000	1 year
	Discount of Notes	28,170	1 year
Guangzhou Chinese Medicine Corporation	Loan of working capital	10,000	1 year
Guangzhou Pharmaceuticals Inport & Export Corporation	Loan of working capital	10,000	1 year
	Notes Discount	5,490	1 year
	Quota of Trading	15,200	1 year
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	Loan of Working capital	18,000	1 year
Guangzhou Bio-Technology Co., Ltd.	Loan of Working capital	10,000	1 year
Total		<u>466,860</u>	

**X. COMMITMENTS**

Up to June 30, 2006, material commitments of the Group are as follows:

*Unit: RMB'000*

	Current Cumulated	Last Cumulated
Project and equipment payables with contract signed	15,747	61,448
Rental payables with contract signed	<u>68,352</u>	<u>84,928</u>

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

On July 26, 2006, the Company has signed an equity transfer contract with Guangzhou Pharmaceuticals Corporation ("the Corporation") and Maiqijie and other 32 natural person shareholders that the Company uses its own working capital to purchase 9.64% of the shares of Guangzhou Zhongyi Pharmaceutical Company Limited ("Zhongyi Pharmacy") which is owned by the Corporation and Maiqijie and other 32 natural person shareholders at the consideration of RMB36,814,400 which is based on the audited book net value as at June 30, 2006. After the purchase, Zhongyi Pharmacy has become the wholly-owned subsidiary of the Company.

**XII. DEBT RESTRUCTURING EVENTS**

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

**XIII. NON-MONETARY TRANSACTIONS**

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

**XIV. ANALYSIS ON THE MOVEMENT OF ACCOUNTING DATA**

As at June 30, 2006 and December 31, 2005, 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 June 30, 2006; and 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 period from Jan. to Jun. 2006 are as follows:

Unit: RMB'000

Item	As at	As at	Difference movement	
	June 30, 2006	Dec. 31, 2005	Amount	Range (%)
Accounts receivables (Note 1)	<b>1,469,008</b>	959,777	509,231	53.06
Advances to suppliers (Note 2)	<b>112,695</b>	196,549	83,854	(42.66)
Item	Jan. to	Jan. to	Amount	Range (%)
Jun. 2006	Jun. 2006	Jun. 2005		
Operating expenses (Note 3)	<b>404,627</b>	301,439	103,188	34.23

*Note 1:* The closing balance of accounts receivables increase by 53.06% compared to the beginning balance, mainly because Guangzhou Pharmaceutical Company Limited develops its sales and the sales of the subsidiaries increase by different ranges, the credit terms of the accounts receivables are longer for promotion and therefore the capital employed increases compared to the beginning of the period.

*Note 2:* The closing balance of advances to suppliers decreases by 42.66% compared to the beginning balance, mainly because the prepayment for import goods of Medicine Trade Company decreases in the reporting period.

*Note 3:* The current cumulated operating expenses increases by 34.23% compared to that of last year, mainly because of the increasing sales, advertisement expenses and expenses of sales' terminals.

**XV. RECONCILIATION BETWEEN PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP**

		As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
Net assets under PRC accounting Standards and Systems		<b>2,685,045</b>	2,621,437
Intangible assets capitalised	1	<b>32,187</b>	37,367
Difference arising from fixed assets revaluation	2	<b>127,869</b>	128,522
Deferred government grants income	3	<b>(4,111)</b>	(4,259)
Provision for employee benefits in medical insurance	4	<b>(50,601)</b>	(53,586)
Provision for deferred taxation	5	<b>21,743</b>	10,822
Impairment on goodwill	6	<b>(1,683)</b>	(1,791)
Difference in minority interests	9	<b>(15,241)</b>	(15,389)
Capital and reserve attributable to equity holders of the Company under HK GAAP		<b><u>2,795,208</u></b>	<b><u>2,723,123</u></b>

	<i>Note</i>	<b>For the six months ended 30 June 2006 (Unaudited) RMB'000</b>	For the six months ended 30 June 2005 (Unaudited) RMB'000
Net profit under PRC Accounting Standards and Systems		<b>120,049</b>	103,590
Amortization of intangible assets	1	<b>(5,180)</b>	(5,180)
Additional depreciation on revalued fixed assets	2	<b>(653)</b>	(988)
Government grants recognised as income	3	<b>220</b>	297
Provision for employees benefits in medical insurance	4	<b>2,985</b>	2,985
Deferred taxation, net impact	5	<b>10,921</b>	5,262
Reversal of impairment /(Impairment on goodwill)	6	<b>108</b>	(1,897)
Unsettled long outstanding payables written off recognised as income	7	<b>250</b>	—
Negative goodwill arising from the additional investment of an external investor into a subsidiary	8	—	19,819
Difference in minority interests	9	<b>148</b>	(932)
Profit attributable to equity holders of the Company under HK GAAP		<b><u>128,848</u></b>	<b><u>122,956</u></b>

*Notes:*

- 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 cost are recognised as an intangible asset and are subject to amortisation on a straightline 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.
- 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.
- 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.
- 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 issues by the Guangzhou People's Municipal Government. Medical insurance relating to contributions accrued for the past service rendered by the retired and retiring employees are 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 to HK GAAP.
- 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 balance sheet liability method on all taxable temporary differences for deferred tax liability, and to recognise deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
- 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. 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.
8. Equity in a subsidiary of the Company was diluted due to the issue of new shares to a third party by such subsidiary. Surplus arising from such transaction is recognised as capital reserve in the financial statements prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it is accounted for in the income statement.
9. 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.

## FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH HONG KONG ACCOUNTING STANDARD 34 “INTERIM FINANCIAL REPORTING” (UNAUDITED)

(FOR THE SIX MONTHS ENDED 30 JUNE 2006)

(All amounts in RMB thousands unless otherwise stated)

### CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

ASSETS	Note	As at	
		30 June 2006 <i>Unaudited</i>	31 December 2005 <i>Audited</i>
<b>Non-current assets</b>			
Property, plant and equipment	5	1,524,251	1,542,068
Investment properties	5	8,712	8,712
Land use rights	5	134,322	134,691
Intangible assets	5	43,953	49,506
Investments in associates		16,989	4,854
Available-for-sale financial assets		31,175	61,994
Deferred income tax assets		63,940	53,345
<b>Total non-current assets</b>		<b>1,823,342</b>	<b>1,855,170</b>
<b>Current assets</b>			
Inventories		1,088,650	1,148,569
Trade and other receivables	6	2,161,230	1,683,197
Financial assets at fair value through profit or loss		1,951	10,903
Cash and cash equivalents		614,540	618,581
<b>Total current assets</b>		<b>3,866,371</b>	<b>3,461,250</b>
<b>Total assets</b>		<b>5,689,713</b>	<b>5,316,420</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	7	1,592,034	1,592,034
Reserves		987,271	989,014
Retained earnings		215,903	142,075
		2,795,208	2,723,123
<b>Minority interest</b>		<b>198,278</b>	<b>201,707</b>
<b>Total equity</b>		<b>2,993,486</b>	<b>2,924,830</b>

The notes on pages 85 to 93 form an integral part of this condensed interim financial information.

LIABILITIES	Note	As at	
		30 June 2006 <i>Unaudited</i>	31 December 2005 <i>Audited</i>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		42,196	42,522
Employee benefits		43,071	46,203
		<u>85,267</u>	<u>88,725</u>
<b>Current liabilities</b>			
Trade and other payables	8	1,646,949	1,359,694
Dividends payable		62,724	26
Current income tax liabilities		29,838	25,360
Borrowings	9	871,449	917,785
		<u>2,610,960</u>	<u>2,302,865</u>
<b>Total liabilities</b>		<u>2,696,227</u>	<u>2,391,590</u>
<b>Total equity and liabilities</b>		<u>5,689,713</u>	<u>5,316,420</u>
<b>Net current assets</b>		<u>1,255,411</u>	<u>1,158,385</u>
<b>Total assets less current liabilities</b>		<u>3,078,753</u>	<u>3,013,555</u>

The notes on pages 85 to 93 form an integral part of this condensed interim financial information.



## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited Six months ended 30 June	
		2006	2005
Sales	4	5,193,992	4,596,172
Cost of goods sold		(4,275,223)	(3,781,112)
<b>Gross profit</b>		<b>918,769</b>	815,060
Other gains (net)	10	42,114	48,723
Distribution costs		(419,304)	(315,040)
Administrative expenses		(319,898)	(329,446)
Other operating expenses		(3,655)	(3,058)
<b>Operating profit</b>	10	<b>218,026</b>	216,239
Finance costs		(26,527)	(30,216)
Share of losses of associates		(1,652)	(416)
<b>Profit before tax</b>		<b>189,847</b>	185,607
Income tax expense	11	(52,514)	(54,743)
<b>Profit for the half-year</b>		<b>137,333</b>	130,864
<b>Attributable to:</b>			
— equity holders of the Company		128,848	122,956
— minority interest		8,485	7,908
		<b>137,333</b>	130,864
<b>Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)</b>			
— basic and diluted		<b>0.159</b>	0.152
<b>Dividends</b>	12	—	—

The notes on pages 85 to 93 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to equity holders of the Company				Minority interest	Total equity
	Capital	Reserves	Retained earnings	Total		
<b>Balance at 1 January 2005</b>	1,592,034	880,427	73,131	2,545,592	212,287	2,757,879
Profit for the half-year	—	—	122,956	122,956	7,908	130,864
Dividends relating to 2004	—	—	(20,273)	(20,273)	(9,198)	(29,471)
Transfers						
— Impact arising from dilution of equity interest in a subsidiary	—	9,902	(9,902)	—	(13,815)	(13,815)
— Others	—	(366)	366	—	—	—
<b>Balance at 30 June 2005</b>	<u>1,592,034</u>	<u>889,963</u>	<u>166,278</u>	<u>2,648,275</u>	<u>197,182</u>	<u>2,845,457</u>
<b>Balance at 1 January 2006</b>	<b>1,592,034</b>	<b>989,014</b>	<b>142,075</b>	<b>2,723,123</b>	<b>201,707</b>	<b>2,924,830</b>
Profit for the half-year	—	—	128,848	128,848	8,485	137,333
Transfers	—	(1,743)	1,743	—	—	—
Dividends relating to 2005	—	—	(56,763)	(56,763)	(11,914)	(68,677)
<b>Balance at 30 June 2006</b>	<u>1,592,034</u>	<u>987,271</u>	<u>215,903</u>	<u>2,795,208</u>	<u>198,278</u>	<u>2,993,486</u>

The notes on pages 85 to 93 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2006	2005
<b>Cash flows from operating activities — net</b>	<b>38,561</b>	85,187
<b>Cash flows from investing activities:</b>		
— purchases of property, plant and equipment	(43,639)	(69,426)
— proceeds on disposal of property, plant and equipment	3,973	2,204
— proceeds from disposals of financial assets of fair value through profit and loss and available-for-sale financial assets	45,909	—
— other investing cash flows — net	(4,787)	(1,577)
<b>Cash flows from investing activities — net</b>	<b>1,456</b>	(68,799)
<b>Cash flows from financing activities:</b>		
— dividends paid to the Company's shareholders	(1,000)	—
— dividends paid to minority interest	(14,185)	(2,529)
— repayments of borrowings	(196,586)	(377,248)
— receipts from borrowings	158,000	294,393
— capital contribution from an investor of a subsidiary	—	62,627
— other financing cash flows — net	9,713	(83,103)
<b>Cash flows from financing activities — net</b>	<b>(44,058)</b>	(105,860)
<b>Net decrease in cash and cash equivalents</b>	<b>(4,041)</b>	(89,472)
Cash and cash equivalents at 1 January	618,581	882,385
<b>Cash and cash equivalents at 30 June</b>	<b>614,540</b>	792,913

The notes on pages 85 to 93 form an integral part of this condensed interim financial information.

**SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION****1. General information**

Guangzhou Pharmaceutical Company Limited (the “Company”) was established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 1 September 1997. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 30 October 1997 and its A shares have been listed on The Shanghai Stock Exchange since 6 February 2001. The Company and its subsidiaries (together the “Group”) are principally engaged in the manufacture of Chinese Patent Medicine (“CPM”), the wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine.

The address of its registered office is 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC.

The condensed consolidated interim financial information was approved for issue on 25 August 2006.

**2. Basis of preparation**

This condensed consolidated interim financial information for the half-year ended 30 June 2006 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

**3. Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, ‘Actuarial gains and losses, group plans and disclosures’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;
- Amendment to HKAS 39, Amendment ‘The fair value option’, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment ‘Net investment in a foreign operation’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;
- Amendment to HKAS 39, Amendment ‘Cash flow hedge accounting of forecast intragroup transactions’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;
- Amendment to HKAS 39 and HKFRS 4, Amendment ‘Financial guarantee contracts’, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the Group as the Group has not provided any guarantees to other parties except for its subsidiaries;
- HKFRS 6, ‘Exploration for and evaluation of mineral resources’, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant to the Group;
- HK(IFRIC)-Int 4, ‘Determining whether an arrangement contains a lease’, effective for annual periods beginning on or after 1 January 2006. This interpretation does not have any impact on the Group as all arrangements that contain leases prior to 1 January 2006 have been accounted for in accordance with HKAS 17;
- HK(IFRIC)-Int 5, ‘Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds’, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant to the Group; and
- HK(IFRIC)-Int 6, ‘Liabilities arising from participating in a specific market — waste electrical and electronic equipment’, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant to the Group.

## 4. Segment information

**Primary reporting format — business segments**

At 30 June 2006, the Group is organised into the following business segments:

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

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

The segment results are as follows:

	Six months ended 30 June 2006					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
Total gross segment sales	1,324,709	4,210,783	183,257	147,802	(672,559)	5,193,992
Inter-segment sales	(64,190)	(585,740)	(208)	(22,421)	672,559	—
<b>Sales - net</b>	<b>1,260,519</b>	<b>3,625,043</b>	<b>183,049</b>	<b>125,381</b>	<b>—</b>	<b>5,193,992</b>
Segment results	187,541	57,325	5,581	2,917	(33,655)	219,709
Corporate unallocated costs						(1,683)
<b>Operating profit</b>						<b>218,026</b>
Finance costs						(26,527)
Share of losses of associates	(1,652)	—	—	—	—	(1,652)
<b>Profit before tax</b>						<b>189,847</b>
Income tax expense						(52,514)
<b>Profit for the half-year</b>						<b>137,333</b>
	Six months ended 30 June 2005					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
Total gross segment sales	1,171,231	3,559,375	148,758	107,203	(390,395)	4,596,172
Inter-segment sales	(30,972)	(350,379)	(23)	(9,021)	390,395	—
<b>Sales - net</b>	<b>1,140,259</b>	<b>3,208,996</b>	<b>148,735</b>	<b>98,182</b>	<b>—</b>	<b>4,596,172</b>
Segment results	162,567	62,757	2,368	279	(20,626)	207,345
Corporate unallocated profit						8,894
<b>Operating profit</b>						<b>216,239</b>
Finance costs						(30,216)
Share of losses of associates	(416)	—	—	—	—	(416)
<b>Profit before tax</b>						<b>185,607</b>
Income tax expense						(54,743)
<b>Profit for the half-year</b>						<b>130,864</b>

## 4. Segment information (continued)

## Primary reporting format — business segments (continued)

Other segment items included in the consolidated income statement are as follows:

	Six months ended 30 June 2006					
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
Depreciation	46,580	9,104	1,918	83	2,727	60,412
Amortisation	5,158	2,709	62	15	122	8,066
Impairment losses	7,854	7,170	—	844	—	15,868
Reversal of impairment losses	(2,559)	—	—	—	—	(2,559)

	Six months ended 30 June 2005					
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
Depreciation	48,677	10,048	1,504	85	2,188	62,502
Amortisation	5,150	2,003	—	15	—	7,168
Impairment losses	4,208	5,016	—	1,211	—	10,435
Reversal of impairment losses	(412)	(561)	—	—	—	(973)

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities as at 30 June 2006 and capital expenditure for the six months then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	2,628,333	2,815,447	188,501	109,489	703,171	(772,217)	5,672,724
Associates	16,989	—	—	—	—	—	16,989
<b>Total assets</b>	<b>2,645,322</b>	<b>2,815,447</b>	<b>188,501</b>	<b>109,489</b>	<b>703,171</b>	<b>(772,217)</b>	<b>5,689,713</b>
<b>Liabilities</b>	<b>665,304</b>	<b>1,644,033</b>	<b>89,211</b>	<b>75,318</b>	<b>994,578</b>	<b>(772,217)</b>	<b>2,696,227</b>
<b>Capital expenditure</b>	<b>43,290</b>	<b>5,098</b>	<b>6</b>	<b>12</b>	<b>1,333</b>	<b>—</b>	<b>49,739</b>

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the six months ended 30 June 2005 are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	2,499,796	2,436,726	194,843	122,651	684,748	(627,198)	5,311,566
Associates	4,854	—	—	—	—	—	4,854
<b>Total assets</b>	<b>2,504,650</b>	<b>2,436,726</b>	<b>194,843</b>	<b>122,651</b>	<b>684,748</b>	<b>(627,198)</b>	<b>5,316,420</b>
<b>Liabilities</b>	<b>554,665</b>	<b>1,283,686</b>	<b>90,904</b>	<b>90,043</b>	<b>999,490</b>	<b>(627,198)</b>	<b>2,391,590</b>
<b>Capital expenditure</b>	<b>50,360</b>	<b>9,909</b>	<b>—</b>	<b>8</b>	<b>180</b>	<b>—</b>	<b>60,457</b>

## 4. Segment information (continued)

**Primary reporting format — business segments (continued)**

Segment assets consist primarily of tangible and intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investment properties and other investments.

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

Capital expenditure comprises additions to land use rights, property, plant and equipment and intangible assets.

**Geographical segments**

No geographical segments are presented as sales and results attributable to the markets outside the PRC are not more than 10% of the Group's consolidated sales and consolidated results.

## 5. Capital expenditure

	Property, plant and equipment	Investment properties	Land use rights	Intangible assets
<b>Six months ended 30 June 2005</b>				
<b>Opening net book amount as at 1 January 2005</b>	1,596,193	8,712	133,364	57,546
Additions	60,457	—	—	—
Impact arising from dilution of equity interest in a subsidiary	(53,505)	—	—	(396)
Disposals	(2,705)	—	—	—
Depreciation / amortisation	(62,502)	—	(1,610)	(5,558)
Reversal of impairment / (impairment)	973	—	—	(2,004)
<b>Closing net book amount as at 30 June 2005</b>	<u>1,538,911</u>	<u>8,712</u>	<u>131,754</u>	<u>49,588</u>
<b>Six months ended 30 June 2006</b>				
<b>Opening net book amount as at 1 January 2006</b>	1,542,068	8,712	134,691	49,506
Additions	47,595	—	1,354	790
Disposals	(4,930)	—	—	—
Depreciation/amortisation	(60,412)	—	(1,723)	(6,343)
Impairment	(70)	—	—	—
<b>Closing net book amount as at 30 June 2006</b>	<u>1,524,251</u>	<u>8,712</u>	<u>134,322</u>	<u>43,953</u>

## 6. Trade and other receivables

Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of trade receivables (including amounts due from related parties of trading in nature) was as follows:

	As at	
	30 June 2006	31 December 2005
Trade receivables		
1 to 3 months	1,309,422	825,158
4 to 6 months	117,486	97,122
7 months to 1 year	38,386	24,949
Over 1 year	54,868	57,429
	<u>1,520,162</u>	<u>1,004,658</u>
Less: provision for impairment of trade receivables	(51,154)	(44,881)
Trade receivables - net	<u><u>1,469,008</u></u>	<u><u>959,777</u></u>

## 7. Share capital

	As at 31 December 2005		Transfers(from)/to		As at 30 June 2006	
	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount
<b>Share capital registered, issued and fully paid</b>						
Non-circulating state shares	513,000,000	513,000	(513,000,000)	(513,000)	—	—
Circulating state shares subject to exchange restrictions	—	—	489,600,000	489,600	489,600,000	489,600
H shares	219,900,000	219,900	—	—	219,900,000	219,900
A shares	78,000,000	78,000	23,400,000	23,400	101,400,000	101,400
	<u>810,900,000</u>	<u>810,900</u>	<u>—</u>	<u>—</u>	<u>810,900,000</u>	<u>810,900</u>
Share premium		781,134		—		781,134
<b>Total</b>		<u><u>1,592,034</u></u>		<u><u>—</u></u>		<u><u>1,592,034</u></u>

Pursuant to the relevant rules and regulations issued by the relevant PRC authorities, and the agreements reached between the holders of the non-circulating state shares and the holders of A shares on 12 April 2006, the holders of the non-circulating state shares transferred 3 shares for every 10 shares to the holders of A shares. Following the transfer, the non-circulating state shares became circulating state shares which are subject to certain exchange restrictions.



**8. Trade and other payables**

At 30 June 2006, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) was as follows:

	As at	
	30 June 2006	31 December 2005
Within 1 year	981,821	908,119
1 year to 2 years	30,579	25,264
Over 2 years	18,966	22,321
	<u>1,031,366</u>	<u>955,704</u>

**9. Borrowings**

	As at	
	30 June 2006	31 December 2005
<b>Current</b>	<u>871,449</u>	<u>917,785</u>

Interest expense on borrowings for the six months ended 30 June 2006 amounted to RMB27,016,000 (30 June 2005: RMB28,321,000).

**10. Operating profit**

The following items have been credited/charged to the operating profit during the interim period:

	Six months ended 30 June	
	2006	2005
<b>Credited to:</b>		
Dividends income from available-for-sale financial assets	4,486	521
Income from disposal of financial assets at fair value through profit or loss	6,025	—
Reversal of impairment charge relating to trade and other receivables	2,559	—
Reversal of impairment charge relating to property, plant and equipment	—	973
<b>Charged to:</b>		
Impairment charge relating to trade and other receivables	9,990	8,238
Impairment charge relating to property, plant and equipment and intangible assets	70	2,004
Write-down of inventories to net realisable value	5,808	193
Other financial assets at fair value through profit or loss — fair value losses	—	5,452
Depreciation and amortisation	68,478	69,670
Loss on disposal of property, plant and equipment	<u>957</u>	<u>501</u>

**11. Income tax expense**

The PRC enterprise income tax has been provided at the principal rate of 33% (2005: 33%) on the estimated assessable profit for the period, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises. Since the subsidiary was established in a coastal economic development zone, the applicable enterprise income tax rate is 27%. The jointly controlled entity is entitled to an exemption from the PRC enterprise income tax for two years commencing from the first profit-making year and a 50% reduction in the enterprise income tax rates in the following three years. The jointly controlled entity is now in the second year of the tax holiday.

	Six months ended 30 June	
	2006	2005
Current income tax		
- PRC enterprise income tax	63,435	60,005
Deferred income tax	<u>(10,921)</u>	<u>(5,262)</u>
	<u>52,514</u>	<u>54,743</u>

**12 Dividends**

At a meeting held on 31 March 2006, the directors proposed a final dividend of RMB 0.07 per ordinary share for the year ended 31 December 2005, which has been reflected as an appropriation of retained earnings for the six months ended 30 June 2006.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

**13 Capital commitments**

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

	As at	
	30 June 2006	31 December 2005
Property, plant and equipment		
Contracted but not provided for	1,602	23,412
Authorised but not contracted for	<u>14,145</u>	<u>38,036</u>
	<u>15,747</u>	<u>61,448</u>

**14 Related-party transactions**

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

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

	Note	Six months ended 30 June	
		2006	2005
<b>Ultimate holding company</b>			
Licence fee expenses	a	5,265	5,848
Welfare facilities fee expenses	b	458	431
Service fee expenses	c	129	129
Rental expenses	d	1,409	1,642
		<u>7,261</u>	<u>8,050</u>
<b>A jointly controlled entity</b>			
Sales of raw materials	e	21,234	6,170
Purchases of finished goods	e	46,095	12,514
		<u>67,329</u>	<u>18,684</u>
<b>Associated companies</b>			
Advertising fee expenses	f	<u>13,825</u>	—
<b>Fellow subsidiaries</b>			
Sales of finished goods and raw materials	e	101,383	98,845
Purchases of finished goods and raw materials	e	221,349	198,498
		<u>322,732</u>	<u>297,343</u>
<b>Other state-controlled entities</b>			
Sales of finished goods and raw materials	h	755,864	1,085,235
Purchases of finished goods and raw materials	e	325,435	384,273
Purchases of machinery and equipment	e	2,212	3,671
Service fee expenses	g	45,380	38,396
		<u>1,128,891</u>	<u>1,511,575</u>
<b>Key management compensation</b>			
Salaries and other benefits		493	473
Retirement scheme contributions		47	34
		<u>540</u>	<u>507</u>

(a) Pursuant to the Trademark License Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("GZPHL"), its ultimate holding company, on 1 September 1997 which was supplemented by an agreement dated 28 July 2005, GZPHL has granted the Company, its subsidiaries and a jointly controlled entity, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Group agreed to pay license fees for the use of the trademarks ranging from 0.1% to 2.1% of the aggregate net sales of the Company, its subsidiaries and a jointly controlled entity.

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

**14 Related-party transactions (continued)**

- (c) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1 September 1997 which was supplemented by a notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 6 February 2004, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three and a half years at a fixed annual rent which is subject to an adjustment of standard rent as prescribed from time to time by Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable on actual consumption basis. The agreement will expire on 31 August 2007.
- (e) The sales and purchase transactions with a jointly controlled entity, fellow subsidiaries and other state-controlled entities were conducted at terms similar to those transactions with other third parties.
- (f) Pursuant to the Continuing Connected Transactions Agreement on Advertising entered into by the Company and Guangzhou Pharmaceutical Football Club Company (the "Football Club"), an associate of the Group, on 15 June 2006, the Football Club has agreed to promote the Group's products through its football competition events. The contract covers for a period from 1 March 2006 to 31 December 2008 with annual advertising charges not exceeding HK\$30,000,000 (equivalent to RMB30,900,000). The transactions were conducted in the normal courses of business and at terms similar to those transactions with other third parties.
- (g) Service fees charged by the other state-controlled entities are primarily for activities relating to advertising and promotion, commercial insurance and transportation.
- (h) GZPHL, the parent of the Company, is a state-controlled entity directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. Stated-controlled enterprises and their subsidiaries, in addition to GZPHL group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither GZPHL nor the PRC government publishes financial statements available for public use.

The Group sells its products on wholesale and retail basis. The retail sales are conducted through the Group's retail outlets at market prices on cash basis. Due to the pervasiveness of the Group's retail transactions with the state-controlled enterprises' employees, the key management personnel and their close family members of state-controlled enterprises, and other related parties, there is no feasible way or a reliable system to track such transactions and to ensure the completeness of the disclosure. Therefore, the sales of goods disclosed above do not include retail sales to such related parties. Management believes that meaningful information relating to related party transactions have been adequately disclosed.

In addition, normal transactions entered into with financial institutions, public utilities providers and governmental departments and agencies have been excluded.