

INTERNATIONAL AUDITORS' REPORT

TO THE SHAREHOLDERS OF GUANGZHOU PHARMACEUTICAL COMPANY LIMITED

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

We have audited the accounts on pages 55 to 89 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20 April 2001

Consolidated Profit and Loss Account

(Prepared in accordance with HK GAAP)

For the year ended 31 December 2000

	<i>Note</i>	2000 Rmb'000	1999 <i>Rmb'000</i>
Turnover	2	4,222,857	3,454,492
Cost of sales		(3,201,332)	(2,591,019)
Gross profit		1,021,525	863,473
Other revenues	2	82,708	60,357
Distribution costs		(367,132)	(288,806)
Administrative expenses		(481,234)	(404,803)
Other operating expenses		(7,990)	(6,257)
Operating profit before finance cost	3	247,877	223,964
Finance costs	4	(39,207)	(45,985)
Operating profit		208,670	177,979
Share of profits less losses of			
Jointly controlled entities		(841)	(688)
Associated companies		(3,257)	824
Profit before taxation		204,572	178,115
Taxation	5	(59,745)	(41,743)
Profit after taxation		144,827	136,372
Minority interests		(9,577)	(7,684)
Net profit for the year		135,250	128,688
Earnings per share	6	Rmb0.185	Rmb0.176

No statement of recognised gains and losses is presented as net profit for the year of Rmb135,250,000 (1999: Rmb128,688,000) shown above is the only component.

Consolidated Balance Sheet

(Prepared in accordance with HK GAAP)

As at 31 December 2000

	Note	2000 Rmb'000	1999 Rmb'000
Deferred expenditures	8	89,909	73,682
Fixed assets	9	900,628	848,515
Construction in progress	10	234,437	175,778
Interests in jointly controlled entities	12	39,738	40,579
Interests in associated companies	13	2,967	12,079
Investment securities	14	33,003	40,835
Current assets			
Inventories	15	789,098	691,939
Trade and other receivables	16	678,313	679,124
Bank balances and cash		488,333	509,526
		<u>1,955,744</u>	<u>1,880,589</u>
Current liabilities			
Trade and other payables	17	929,621	822,904
Current portion of long-term liabilities	22	34,000	49,143
Taxation payable		35,520	16,787
Proposed dividend		24,327	21,987
Short-term bank loans	18	478,000	529,680
		<u>1,501,468</u>	<u>1,440,501</u>
Net current assets		<u>454,276</u>	<u>440,088</u>
Total assets less current liabilities		<u>1,754,958</u>	<u>1,631,556</u>
Financed by:			
Share capital	19	732,900	732,900
Share premium		120,333	120,333
Reserves	20	631,352	591,194
Retained earnings	21	89,905	33,798
		<u>1,574,490</u>	<u>1,478,225</u>
Shareholders' funds			
Minority interests		115,468	106,731
Long-term liabilities	22	65,000	46,600
		<u>1,754,958</u>	<u>1,631,556</u>

Cai Zhixiang
Director

Li Yimin
Director

Balance Sheet

(Prepared in accordance with HK GAAP)

As at 31 December 2000

	Note	2000 Rmb'000	1999 Rmb'000
Deferred expenditures	8	2,187	2,148
Fixed assets	9	26,297	22,954
Investments in subsidiaries	11	995,118	968,118
Investment securities	14	30,500	30,000
Current assets			
Other receivables	16	256,856	196,998
Bank balances and cash		128,225	137,822
		<u>385,081</u>	<u>334,820</u>
Current liabilities			
Other payables	17	49,029	9,124
Taxation payable		67	159
Proposed dividend		24,327	21,987
Short-term bank loans	18	30,000	—
		<u>103,423</u>	<u>31,270</u>
Net current assets		<u>281,658</u>	<u>303,550</u>
Total assets less current liabilities		<u>1,335,760</u>	<u>1,326,770</u>
Financed by:			
Share capital	19	732,900	732,900
Share premium		120,333	120,333
Reserves	20	482,527	452,217
Retained earnings	21	—	21,320
		<u>1,335,760</u>	<u>1,326,770</u>

Cai Zhixiang
Director

Li Yimin
Director

1,335,760

1,326,770

Consolidated Cash Flow Statement

(Prepared in accordance with HK GAAP)

For the year ended 31 December 2000

	Note	2000 Rmb'000	1999 Rmb'000
Net cash inflow from operating activities	23(a)	<u>312,559</u>	<u>381,405</u>
Returns on investments and servicing of finance			
Interest received		13,947	11,901
Interest paid		(43,143)	(46,108)
Income from unlisted investments		7,025	3,057
Dividends paid		(36,645)	(41,933)
Dividends paid to minority shareholders in subsidiaries	23(b)	(6,626)	(11,989)
Net cash outflow from returns on investments and servicing of finance		<u>(65,442)</u>	<u>(85,072)</u>
Taxation paid — PRC enterprise income tax		<u>(36,455)</u>	<u>(35,739)</u>
Investing activities			
Payment for deferred expenditures		(26,675)	(34,396)
Purchase of fixed assets		(74,945)	(39,065)
Sale of fixed assets		7,213	8,847
Payment for construction in progress		(90,725)	(36,990)
Sale of investment securities		4,147	—
Purchase of investment securities		—	(31,347)
Acquisition of subsidiary	23(c)	(947)	—
Net cash outflow from investing activities		<u>(181,932)</u>	<u>(132,951)</u>
Net cash inflow before financing		<u>28,730</u>	<u>127,643</u>
Financing	23(b)		
New loans payable		557,280	575,230
Repayment of amounts borrowed		(607,203)	(701,383)
Net cash outflow from financing		<u>(49,923)</u>	<u>(126,153)</u>
(Decrease)/increase in cash and cash equivalents:		(21,193)	1,490
Cash and cash equivalents at 1 January		<u>509,526</u>	<u>508,036</u>
Cash and cash equivalent at 31 December		<u>488,333</u>	<u>509,526</u>

Cash and cash equivalents as at 31 December 2000 and 31 December 1999 represent bank balances and cash as shown in the consolidated balance sheet on the respective dates.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain investment properties in accordance with HK GAAP and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Joint ventures

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Associated companies

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

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

(e) Investment properties

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

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

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

(f) Property, plant and equipment

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

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

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

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

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset, other than for investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Construction in progress

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

(h) Investments securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Inventories

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

Production supplies are stated at cost less provision for obsolescence.

(j) Accounts receivable

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

(k) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(l) Translation of foreign currencies

The Company and its principal subsidiaries maintain their books and records in Renminbi.

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

The accounts of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(m) Revenue recognition

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

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

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Revenue recognition (continued)

Royalty income is recognised on an accrual basis.

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

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

(n) Retirement benefit costs

The Group participates in a local municipal government pension scheme whereby it is required to pay annual contributions at a rate of around 23% of the total salary, bonuses and allowances paid to the Group's staff for the year. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired staff of the Group. Contributions to this retirement scheme are charged to the profit and loss account as and when incurred.

(o) Deferred staff quarters reform costs

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

(p) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised.

(q) Operating leases

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

Notes to the Accounts

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Borrowing costs

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

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

2 TURNOVER AND REVENUE

- (a) The Group is principally engaged in the manufacture and sales of CPM and the wholesale, retail, import and export of Western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus. Revenues recognised during the year are as follows:

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Turnover:		
Sales of goods	<u>4,222,857</u>	<u>3,454,492</u>
Other revenues:		
Tax subsidies (<i>Note</i>)	21,896	14,718
Interest income	13,947	11,901
Gross rental income from investment properties	20,508	19,793
Other rental income net of outgoings	8,374	7,726
Promotional income from suppliers	9,466	—
Royalty income	1,492	3,162
Income from unlisted investments	<u>7,025</u>	<u>3,057</u>
	<u>82,708</u>	<u>60,357</u>
Total revenues	<u><u>4,305,565</u></u>	<u><u>3,514,849</u></u>

Note: During the year, the Group received the following subsidies from the local tax authorities:

- *Rmb13,185,000 (1999: Rmb14,718,000) has been received for the purpose of reduction of its bank loan liabilities. The Group is required to transfer from profit after taxation an amount equal to the subsidies received to the capital reserve in order to comply with the approval document (Note 20(a)).*
- *Rmb8,711,000 (1999: Nil) has been received by one of the subsidiaries from the Guangzhou Finance Bureau as a reward for qualifying as an innovative technology enterprise (科技創新企業).*

Notes to the Accounts

(Prepared in accordance with HK GAAP)

2 TURNOVER AND REVENUE (continued)

(b) An analysis of the Group's turnover and contribution to profit before taxation for the year by principal activities is as follows:

	Turnover		Profit before taxation	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Manufacturing	1,295,155	1,199,739	154,350	123,789
Wholesaling	2,469,538	1,802,015	38,431	37,010
Retailing	388,807	380,220	11,772	17,022
Import and export	69,357	72,518	19	294
	<u>4,222,857</u>	<u>3,454,492</u>	<u>204,572</u>	<u>178,115</u>

(c) No geographical analysis is presented as the Group's operations were substantially carried out in the PRC.

3 OPERATING PROFIT BEFORE FINANCE COST

Operating profit before finance cost is stated after charging the following:

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Depreciation and amortization of fixed assets	64,883	62,753
Outgoings in respect of investment properties	4,070	3,506
Loss on disposal of fixed assets	895	990
Loss on disposal of investment securities	3,685	—
Research and development costs	9,429	8,834
Auditors' remuneration	2,500	2,000
Staff costs:		
Amortisation of deferred expenditures	10,448	2,650
Retirement benefit costs	62,075	50,934
Salaries, wages and other welfare benefits	354,106	302,126
Operating leases for land and buildings	<u>21,829</u>	<u>21,760</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

4 FINANCE COSTS

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Interest on bank loans and overdrafts	43,143	46,108
Other incidental borrowing costs	<u>1,281</u>	<u>1,100</u>
Total borrowing costs incurred	44,424	47,208
Less: interest capitalised in construction in progress	<u>(5,217)</u>	<u>(1,223)</u>
	<u><u>39,207</u></u>	<u><u>45,985</u></u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.94% (1999: 5.4% to 6.9% per annum).

5 TAXATION

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
PRC enterprise income tax	59,525	41,524
Share of taxation attributable to:—		
Jointly controlled entities	—	3
Associated companies	<u>220</u>	<u>216</u>
	<u><u>59,745</u></u>	<u><u>41,743</u></u>

Pursuant to an approval document issued by the Guangzhou Municipal Government, certain subsidiaries of the Group are entitled to a preferential enterprise income tax refund treatment during the period from 1st September 1997 (date of establishment) to 31st December 2000 which will result in an effective income tax rate of 15%.

Pursuant to a document [2000] 76 issued by the Guangdong Finance Bureau on 9 November 2000, enterprise income tax of listed companies in Guangdong province up to year 2001 may be initially based on the unified tax rate of 33% and the portion over the preferential tax rate of 15% shall be refunded by the relevant local finance authority. The Company has submitted an application to the Guangzhou Municipal Government for entitlement of this preferential enterprise income tax refund treatment in 2001. Approval from the Guangzhou Municipal Government has not yet been obtained.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

5 TAXATION (continued)

Companies comprising the Group that are incorporated outside the PRC are liable to pay income tax on their taxable income in accordance with the tax laws of the countries in which they operated.

There was no material unprovided deferred taxation for the year (1999: Nil).

6 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2000 is based on the profit after taxation and minority interests of Rmb135,250,000 (1999: Rmb128,688,000) and the number of 732,900,000 shares (1999: 732,900,000 shares) in issue.

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The aggregate amounts of emoluments payable to directors and supervisors of the company during the year are as follows:

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Fees		
Executive directors	—	—
Non-executive directors	210	335
Supervisors	—	—
Other emoluments for executive directors		
Basic salaries, allowances and benefits in kind	569	700
Bonuses	324	1,892
Retirement benefits	40	75
Other emoluments for supervisors		
Basic salaries, allowances and benefits in kind	201	138
Bonuses	—	404
Retirement benefits	10	7
Other emoluments for senior management		
Basic salaries, allowances and benefit in kind	336	338
Retirement benefits	20	10
	<u>1,710</u>	<u>3,899</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

The emoluments for each of the Company's directors (executive and non-executive), supervisors and senior management, totalling 16 individuals (1999: 16 individuals) are within the band of Rmb Nil to Rmb1,000,000 for the years ended 31 December 2000 and 31 December 1999.

No director, supervisor or senior management waived emoluments in respect of the years ended 31 December 2000 and 31 December 1999.

The five highest paid individuals in the Group during the years ended 31 December 2000 and 31 December 1999 were either directors or supervisors whose emoluments are reflected in the analysis presented above.

8 DEFERRED EXPENDITURES

	Group		Company	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
Staff quarters reform costs				
Net book value at 1 January	73,682	13,140	2,148	—
Additions	26,675	63,192	282	2,148
Amortisation	(10,448)	(2,650)	(243)	—
Net book value at 31 December	<u>89,909</u>	<u>73,682</u>	<u>2,187</u>	<u>2,148</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

9 FIXED ASSETS

Group

	Investment properties <i>Rmb'000</i>	Land use rights <i>Rmb'000</i>	Land and buildings <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost or valuation						
At 1 January 2000	8,712	110,803	465,272	483,384	66,175	1,134,346
Additions	—	8,683	26,000	34,242	6,020	74,945
Acquisition of subsidiary	—	2,845	12,194	8,531	427	23,997
Transfer from construction in progress	—	—	16,822	13,916	1,328	32,066
Disposals	—	—	(3,166)	(11,249)	(5,164)	(19,579)
At 31 December 2000	8,712	122,331	517,122	528,824	68,786	1,245,775
Accumulated depreciation and amortisation						
At 1 January 2000	—	6,866	74,004	171,608	33,353	285,831
Charge for the year	—	3,013	14,485	40,204	7,181	64,883
Acquisition of subsidiary	—	—	2,317	3,329	258	5,904
Disposals	—	—	(184)	(7,432)	(3,855)	(11,471)
At 31 December 2000	—	9,879	90,622	207,709	36,937	345,147
Net book value						
At 31 December 2000	8,712	112,452	426,500	321,115	31,849	900,628
At 31 December 1999	8,712	103,937	391,268	311,776	32,822	848,515

The analysis of the cost or valuation at 31 December 2000 of the above assets is as follows:

At cost	—	122,331	517,122	528,824	68,786	1,237,063
At 2000 valuation	8,712	—	—	—	—	8,712
	8,712	122,331	517,122	528,824	68,786	1,245,775

Notes to the Accounts

(Prepared in accordance with HK GAAP)

9 FIXED ASSETS (continued)

Company

	Land and buildings <i>Rmb'000</i>	Plant, Machinery and Equipment <i>Rmb'000</i>	Motor vehicles <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost				
At 1 January 2000	20,412	3,311	596	24,319
Additions	2,595	2,448	—	5,043
At 31 December 2000	23,007	5,759	596	29,362
Accumulated depreciation				
At 1 January 2000	863	458	44	1,365
Charge for the year	575	1,059	66	1,700
At 31 December 2000	1,438	1,517	110	3,065
Net book value				
At 31 December 2000	21,569	4,242	486	26,297
At 31 December 1999	19,549	2,853	552	22,954

All of the Group's investment properties and buildings are located in the PRC, except for a property with a net book value of Rmb18,708,000 (1999: Rmb19,283,000) which is located in Hong Kong and is held on a lease of over 50 years. The land use rights of the land where the Group's investment properties and buildings in the PRC are situated were granted by the State Land Administration Bureau of Guangzhou for periods ranging from 20 to 50 years.

Investment properties have been revalued at their open market value by Mr K.K. Ip of Greater China Appraisal Limited, an independent firm of valuers, at 31 December 2000. Mr K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

At 31 December 2000, the net book value of fixed assets pledged as security for the Group's bank loans of Rmb532,360,000 (1999: Rmb594,280,000) amounted to Rmb171,738,000 (1999: Rmb273,235,000).

Notes to the Accounts

(Prepared in accordance with HK GAAP)

10 CONSTRUCTION IN PROGRESS

	Group	
	2000 Rmb'000	1999 Rmb'000
At 1st January	175,778	200,245
Additions	90,725	36,990
Transfer to fixed asset	(32,066)	(61,457)
At 31st December	<u>234,437</u>	<u>175,778</u>

Construction in progress included interest capitalised amounted to Rmb16,101,000 (1999: Rmb10,884,000).

11 INVESTMENTS IN SUBSIDIARIES

	Company	
	2000 Rmb'000	1999 Rmb'000
Unlisted shares, at cost	<u>995,118</u>	<u>968,118</u>

The particulars of principal subsidiaries are set out in Note 27 to these accounts.

12 INTERESTS IN JOINTLY CONTROLLED ENTITIES

At 31 December 2000 the Group's share of the net assets of jointly controlled entities under the equity method of accounting amounted to Rmb39,738,000 (1999: Rmb40,579,000). At 31 December 2000 the Group had interests in the following jointly controlled entities which are established and operating in the PRC.

Name	Kind of legal entities	Principal activities	Percentage of		
			Ownership Interest	Voting power	Profit/loss sharing
Guangzhou Xing Qun Trading Company Ltd.	Company limited by shares	Retailing of Chinese and Western patent medicine	51.0	28.6	42.9
Guangdong Xinhua Health Drinks Co., Ltd.	Sino-foreign joint venture	Production of health care drinks	53.0	42.9	44.6

Notes to the Accounts

(Prepared in accordance with HK GAAP)

13 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2000	1999
	Rmb'000	Rmb'000
Share of net assets	<u>2,967</u>	<u>12,079</u>
Investments at cost:		
Unlisted shares	<u>2,338</u>	<u>13,838</u>

At 31 December 2000 the Group held shares in the following associated companies:—

Name	Particulars of equity held	Place of establishment/ incorporation	Kind of legal entities	% of equity interest	Principal activities
Guangzhou Zhong Fu Medical Co., Ltd. ¹	Registered capital: Rmb400,000	PRC	Sino-foreign joint venture	50	Production of CPM
PT. Purusa Bhakti ²	Ordinary shares of US\$1.00 each	Indonesia	Limited Company	43.6	Dormant
Ming Tai Enterprises (Thailand) Ltd. ²	Ordinary shares of Baht1.00 each	Thailand	Limited Company	32.6	Dormant

Notes to the Accounts

(Prepared in accordance with HK GAAP)

14 INVESTMENT SECURITIES

	Group		Company	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Unlisted shares	32,771	37,084	30,500	30,000
Unlisted government bonds and debentures	232	3,751	—	—
	<u>33,003</u>	<u>40,835</u>	<u>30,500</u>	<u>30,000</u>

At 31 December 2000 and 1999, all investment securities were stated at cost.

15 INVENTORIES

	Group	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Raw materials	92,019	120,302
Work-in-progress	42,573	31,040
Finished goods	640,075	525,259
Production supplies	14,431	15,338
	<u>789,098</u>	<u>691,939</u>

At 31 December 2000 and 1999, all inventories were stated at cost.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Trade receivables (Note a)	433,824	470,868	—	—
Other receivables and prepayments	237,899	201,679	51,100	14,378
Due from (Note b):				
Jointly controlled entities	3,800	2,777	—	—
Associated companies	2,790	3,800	—	—
Subsidiaries	—	—	173,390	132,070
Dividend receivable from subsidiaries	—	—	32,366	50,550
	678,313	679,124	256,856	196,998

- (a) Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of the trade receivables net of doubtful debt provision as at 31 December 2000 was as follows:

	Group	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Within 6 months	413,173	424,788
6 months to 1 year	14,197	16,453
1 year to 2 years	6,454	29,627
	433,824	470,868

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

- (b) The amounts due are unsecured, interest free and repayable on demand.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

17 TRADE AND OTHER PAYABLES

	Group		Company	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Due to (Note a):				
Subsidiaries	—	—	38,000	—
Holding company	68,852	66,425	2,000	—
Trade payables (Note b)	516,726	445,230	—	—
Other payables and accrued charges	344,043	311,249	9,029	9,124
	<u>929,621</u>	<u>822,904</u>	<u>49,029</u>	<u>9,124</u>

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

(b) The ageing analysis of the trade payables at 31 December 2000 was as follows:

	Group	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Within 1 year	477,378	399,553
1 to 2 years	17,086	16,641
Over 2 years	22,262	29,036
	<u>516,726</u>	<u>445,230</u>

18 SHORT-TERM BANK LOANS

	Group		Company	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Short-term bank loans				
Secured	433,360	529,680	30,000	—
Unsecured	44,640	—	—	—
	<u>478,000</u>	<u>529,680</u>	<u>30,000</u>	<u>—</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

19 SHARE CAPITAL

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Registered, issued and fully paid:		
513,000,000 State-owned shares of Rmb1.00 each	513,000	513,000
219,900,000 H shares of Rmb1.00 each	219,900	219,900
	<u>732,900</u>	<u>732,900</u>

Pursuant to the Company's Articles of Association, except for the currency in which dividends are payable, the State-owned shares and H shares issued by the Company rank pari passu with each other in all respects.

20 RESERVES

	Group				Total <i>Rmb'000</i>
	Capital reserve (Note a) <i>Rmb'000</i>	Statutory surplus reserve (Note b) <i>Rmb'000</i>	Statutory public welfare (Note b) <i>Rmb'000</i>	Discretionary surplus reserve (Note b) <i>Rmb'000</i>	
Balance at 1 January 1999	410,885	33,180	33,180	21,455	498,700
Transfer from retained earnings	14,718	26,360	27,582	23,834	92,494
Balance at 31 December 1999	<u>425,603</u>	<u>59,540</u>	<u>60,762</u>	<u>45,289</u>	<u>591,194</u>
The Company and subsidiaries	425,603	59,540	60,762	45,289	591,194
Jointly controlled entities	—	—	—	—	—
Associated companies	—	—	—	—	—
	<u>425,603</u>	<u>59,540</u>	<u>60,762</u>	<u>45,289</u>	<u>591,194</u>
Balance at 1 January 2000	425,603	59,540	60,762	45,289	591,194
Transfer from retained earnings	11,675	47,885	26,408	9,425	95,393
Transfer to retained earnings	—	(4,663)	(18,959)	(31,613)	(55,235)
Balance at 31 December 2000	<u>437,278</u>	<u>102,762</u>	<u>68,211</u>	<u>23,101</u>	<u>631,352</u>
The Company and subsidiaries	437,278	102,762	68,211	23,101	631,352
Jointly controlled entities	—	—	—	—	—
Associated companies	—	—	—	—	—
	<u>437,278</u>	<u>102,762</u>	<u>68,211</u>	<u>23,101</u>	<u>631,352</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

20 RESERVES

	Company			Total
	Capital reserve	Statutory surplus reserve (Note b)	Statutory Public Welfare (Note b)	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Balance at 1 January 1999	394,259	16,101	16,101	426,461
Transfer from retained earnings	—	12,878	12,878	25,756
Balance at 31 December 1999	<u>394,259</u>	<u>28,979</u>	<u>28,979</u>	<u>452,217</u>
Balance at 1 January 2000	394,259	28,979	28,979	452,217
Transfer from retained earnings	—	17,744	12,566	30,310
Balance at 31 December 2000	<u>394,259</u>	<u>46,723</u>	<u>41,545</u>	<u>482,527</u>

(a) Capital reserve

The transfers from retained earnings represent the tax subsidies received from the local tax authorities, net of minority interests (Note 2(a)).

Notes to the Accounts

(Prepared in accordance with HK GAAP)

20 RESERVES *(continued)*

(b) Surplus reserves

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

Statutory surplus reserve

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

During the year, the Group has transferred an amount of Rmb4,663,000 to retained earnings to set off losses resulted from transactions determined in accordance with the PRC accounting rules and regulations. (1999: Nil)

Statutory public welfare reserve

The PRC Companies are required to transfer 10% of their profit after taxation calculated in accordance with the PRC accounting standards to the statutory public welfare fund. The statutory public welfare fund can only be used for capital expenditure on employees’ collective welfare facilities and is not available for distribution to shareholders.

During the year, the Group has transferred an amount of Rmb18,959,000 to retained earnings to set off losses resulted from transactions determined in accordance with the PRC accounting rules and regulations. (1999: Nil)

Discretionary surplus reserve

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

During the year, the Group has transferred an amount of Rmb18,761,000 to retained earnings to set off losses resulted from transactions determined in accordance with the PRC accounting rules and regulations (1999: Nil).

During the year, the Group has also transferred an amount of Rmb12,852,000 to retained earnings for the purpose of paying dividends (1999: Nil).

Notes to the Accounts

(Prepared in accordance with HK GAAP)

21 RETAINED EARNINGS

	Group		Company	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Net profit for the year	135,250	128,688	47,975	82,489
Transfer to reserve funds	(95,393)	(92,494)	(30,310)	(25,756)
Profit attributable to shareholders	39,857	36,194	17,665	56,733
Retained earnings at 1st January	33,798	34,249	21,320	1,232
Transfer from reserves funds	55,235	—	—	—
Dividends (Note a)	(38,985)	(36,645)	(38,985)	(36,645)
Retained earnings at 31st December	89,905	33,798	—	21,320
The Company and subsidiaries	93,767	34,121		
Jointly controlled entities	(2,261)	(1,420)		
Associated companies	(1,601)	1,097		
	89,905	33,798		

(a) Dividends

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Interim, paid, of Rmb0.02 (1999: Rmb0.02) per share	14,658	14,658
Final, proposed, of Rmb0.03 (1999: Rmb0.03) per share	24,327	21,987
	38,985	36,645

By a resolution passed at the Company's second 2000 EGM on 18th October 2000, shareholders of the Company's A share are entitled to dividends to be distributed from the Company's retained earnings from 1 July 2000. Accordingly, the amount of proposed final dividend is calculated based on 810,900,000 shares in issue as at the date that these accounts were approved by the directors.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

21 RETAINED EARNINGS (continued)

(b) Profit distribution

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

- (a) making up losses;
- (b) allocation to statutory surplus reserve fund;
- (c) allocation to statutory public welfare fund;
- (d) allocation to discretionary surplus reserve fund — to be recommended by Directors; and
- (e) payment of dividends.

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC accounting rules and regulations and the amount determined in accordance with HK GAAP. After the appropriation of the proposed final dividend, the Company had no retained earnings available for distribution determined in accordance with HK GAAP as at 31 December 2000 (1999: Rmb21,320,000).

22 LONG TERM LIABILITIES

	Group	
	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>
Bank loans, secured	99,000	64,600
Other unsecured long-term liabilities	—	31,143
	<u>99,000</u>	<u>95,743</u>
Current portion of long-term liabilities	<u>(34,000)</u>	<u>(49,143)</u>
	<u><u>65,000</u></u>	<u><u>46,600</u></u>
The analysis of the above is as follows:—		
Bank loans, repayable:		
Within one year	34,000	18,000
In the second year	65,000	46,600
	<u>99,000</u>	<u>64,600</u>
Other long-term unsecured liabilities		
— repayable on demand or within one year	—	31,143
	<u>99,000</u>	<u>95,743</u>
Current portion of long term liabilities	<u>(34,000)</u>	<u>(49,143)</u>
	<u><u>65,000</u></u>	<u><u>46,600</u></u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Operating profit	208,670	177,979
Amortisation of deferred expenditures	10,448	2,650
Depreciation and amortisation charges	64,883	62,753
Loss on disposal of fixed assets	895	990
Loss on sale of investment securities	3,685	—
(Increase)/decrease in inventories	(95,085)	4,034
Decrease in trade and other receivables	1,403	19,237
Increase in trade and other payables	95,489	82,612
Interest income	(13,947)	(11,901)
Interest expenses	43,143	46,108
Income from unlisted investments	(7,025)	(3,057)
	<u>312,559</u>	<u>381,405</u>
Net cash inflow from operating activities	<u>312,559</u>	<u>381,405</u>

Net cash inflow from operating activities included an amount of Rmb21,896,000 (1999: Rmb14,718,000) in respect of VAT subsidies received from the local tax authorities (note 2).

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Bank loans and long-term liabilities	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Balance at 1 January	853,233	853,233	106,731	111,036	625,423	751,576
Acquisition of subsidiary	—	—	5,786	—	1,500	—
Cash outflows from financing	—	—	—	—	(49,923)	(126,153)
Minority interests' in share of profits	—	—	9,577	7,684	—	—
Dividends paid to minority shareholders	—	—	(6,626)	(11,989)	—	—
Balance 31 December	<u>853,233</u>	<u>853,233</u>	<u>115,468</u>	<u>106,731</u>	<u>577,000</u>	<u>625,423</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Purchase of subsidiary and analysis of the net outflow in respect of the purchase

	<i>Rmb'000</i>
Acquisition of subsidiary	
Fixed assets	18,093
Inventories	2,074
Trade and other receivables	592
Cash and bank	2,564
Trade and other payables	(6,700)
Bank loans	(1,500)
Taxation	(191)
Minority interests	(5,786)
	<u>9,146</u>
Satisfied by	
Share of net assets in associated company	5,635
Cash consideration	3,511
	<u>9,146</u>
Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiary	
Bank balances and cash acquired	2,564
Cash consideration	(3,511)
	<u>(947)</u>

The subsidiary acquired during the year contributed an outflow of Rmb180,000 to the group's net operating cash flows, paid Rmb84,000 in respect of servicing of finance, paid Rmb75,000 in respect of taxation and utilised Rmb439,000 for investing activities.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

24 COMMITMENTS

(a) Capital commitments for land use rights and buildings

	Group	
	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for	52,153	7,000
Authorised but not provided for	—	47,879
	<u>52,153</u>	<u>54,879</u>

(b) Commitments under operating leases

At 31 December 2000 the Group had commitments to make payments in the next twelve months under operating leases for land and buildings which expire as follows:—

	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	5,016	11,705
In the second to fifth year inclusive	6,508	4,579
After the fifth year	2,196	1,987
	<u>13,720</u>	<u>18,271</u>

Notes to the Accounts

(Prepared in accordance with HK GAAP)

25 RELATED PARTY TRANSACTIONS

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

	Note	2000 Rmb'000	1999 Rmb'000
Ultimate holding company			
Licence fee expense	a	4,504	3,496
Service fee expense	b	1,938	3,303
Staff quarters reform costs	c	4,891	42,539
Welfare facilities fee expense	d	404	398
Rental expense	e	2,719	2,422
Transfer of land use right		—	4,082
Advance rental for office premises		—	6,000
Jointly controlled entities	f		
Sales of semi-finished goods		1,170	6,209
Associated company	f		
Subcontracting charge paid		6,599	—
Sales of finished goods		2,051	—
Fellow subsidiaries	f		
Sales of finished goods and raw materials		48,989	20,339
Purchases of finished goods and raw materials		47,960	41,056

- (a) Pursuant to the Trademark Licence Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("GZPHL") on 1 September 1997, GZPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a licence fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries.
- (b) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1 September 1997 and supplemented by a notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

25 RELATED PARTY TRANSACTIONS (continued)

- (c) Pursuant to the Accommodation Services Agreement, GZPHL has also agreed, upon request of the Company and in accordance with the prevailing Housing Reform Policy applicable in the Guangzhou Municipality, to sell staff quarters to the employees of the Group at a preferential price. For each such sale, the Company agreed to pay GZPHL within twelve months from completion of the sale, the staff reform cost which represents the difference between the preferential price and the cost (net of accumulated depreciation) paid by GZPHL for building or acquiring such staff quarters.

As at 31 December 2000, the total staff reform costs paid and payable to GZPHL amounted to Rmb62,030,000 (1999: Rmb57,139,000). In accordance with the Group's accounting policy, such amount has been included in "Deferred Expenditures" of the balance sheet of the Company and the Group.

- (d) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL's total depreciation charges of the welfare facilities in the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31 December 2007.
- (e) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three years at a fixed annual rent and is subject to the adjustment of standard rent as prescribed from time to time by the Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement was extended for three years during 2000 on the same terms.
- (f) The sales and purchases transactions with jointly controlled entities, associated companies and fellow subsidiaries three at terms similar to those transactions with other third parties.

26 SUBSEQUENT EVENTS

Pursuant to the document [2001] 14 issued by the SSE, the A shares was listed on the SSE on 6th February 2001. On 10 January 2001, 78,000,000 A shares of Rmb1.00 each were issued at a subscription price of Rmb9.80 each.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

27 PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries at 31 December 2000:

Name	% of equity interest	Registered capital <i>Rmb</i>	Principal activities
Kwang Chow First Chinese Medicine Factory ¹	100.0	50,526,000	Production of Chinese patent medicine
Guangzhou Chen Li Ji Chinese Medicine Factory ¹	100.0	41,591,000	Production of Chinese patent medicine
Guangzhou Zhong Sheng Pharmaceutical Factory ¹	100.0	20,993,000	Production of Chinese patent medicine
Guangzhou Qi Xing Pharmaceutical Factory ¹	100.0	31,634,000	Investment Holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ²	83.9	62,098,000	Production of Chinese patent medicine
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ²	81.5	43,322,000	Production of Chinese patent medicine
Guangzhou Yang Cheng Pharmaceutical Co., Ltd. ²	87.1	61,893,000	Production of Chinese patent medicine
Guangzhou Xing Qun Pharmaceutical Co., Ltd. ²	84.1	53,500,000	Production of Chinese patent medicine
Guangzhou Pharmaceutical Corporation ¹	100.0	63,482,000	Trading of Western pharmaceutical products and medical apparatus

Notes to the Accounts

(Prepared in accordance with HK GAAP)

27 PRINCIPAL SUBSIDIARIES (continued)

Name	% of equity interest	Registered capital Rmb	Principal activities
Guangzhou Chinese Medicine Corporation ¹	100.0	33,493,000	Trading of Chinese patent medicine and Chinese raw medicine
Guangzhou Pharmaceutical Corporation Chun Hing Company ¹	100.0	270,000	Trading of chemical products and pharmaceutical apparatus
Guangzhou Pharmaceutical Corporation Jianmin Medicine Chain Stores ¹	100.0	10,694,000	Wholesaling and retailin of medicine, pharmaceutical and related products
Guangzhou Pharmaceutical Corporation Experimental Equipment Store ¹	100.0	52,000	Retailing of experimental apparatus and test tubes
Guangzhou Pharmaceutical Corporation Miscellaneous Medicine Wholesale Company ¹	100.0	650,000	Wholesaling of miscellaneous medicine
Guangzhou Pharmaceutical Corporation Jiamin Medicine Sales and Marketing Company ¹	100.0	500,000	Wholesaling of western patent medicine
Guangzhou Pharmaceutical Import & Export Corporation ¹	100.0	3,540,000	Import and export of medicine
Guangzhou Qixing Pharmaceutical Co., Ltd. ³	75.0	100,000,000	Production of Chinese patent medicine
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory ¹	100.0	3,113,000	Processing of health care beverages and drinks

Notes to the Accounts

(Prepared in accordance with HK GAAP)

27 PRINCIPAL SUBSIDIARIES (continued)

Name	% of equity interest	Registered capital Rmb	Principal activities
Guangzhou Chinese Medicine Corporation Guangzhou Chinese Medicine Shopping Centre ¹	100.0	260,000	Wholesaling and retailing of Chinese raw medicine and Chinese patent medicine
Guangzhou Chinese Medicine Corporation Medical Powder and Herb Wholesale Company ¹	100.0	534,000	Wholesaling of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Sales and Marketing Company ¹	100.0	2,083,000	Wholesaling and retailing of Chinese patent medicine
Guangzhou Chinese Medicine Corporation Cai Chi Lim Medicine Chain Stores ¹	100.0	3,934,000	Retailing of Chinese raw medicine and Chinese patent medicine
Guangzhou Pharmaceutical Corporation Chemical Testing Equipment Wholesale Company ¹	100.0	6,402,000	Wholesaling of chemical testing and related apparatus
Guangzhou Pharmaceutical Corporation Medical Equipment Wholesale Company ¹	100.0	982,000	Wholesaling and retailing of medical apparatus
Guangzhou Pharmaceutical Corporation New and Special Medicine Wholesale Company ¹	100.0	6,093,000	Wholesaling of medicine and health care products

The above table includes subsidiaries of the Company which, in the opinion of the Directors, principally affect the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length. All the operations of the above subsidiaries are carried out in the PRC.

Notes to the Accounts

(Prepared in accordance with HK GAAP)

27 PRINCIPAL SUBSIDIARIES *(continued)*

Except for the shares in Guangzhou Qixing Pharmaceutical Co., Ltd. which are indirectly held by the Company, all shares in other companies are held directly by the Company.

Kind of legal entities:

¹ State owned enterprises

² Company limited by shares

³ Sino-foreign joint venture

28 ULTIMATE HOLDING COMPANY

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

29 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20 April 2001.

Auditors Report

廣州羊城會計師事務所
有限公司
Guangzhou Yangcheng
Certified Public
Accountants Co., Ltd

To the shareholders of Guangzhou Pharmaceutical Company Limited

We have accepted the appointment to audit the Company's balance sheet as at 31 December 2000, its profit and loss account and cash flow statement for the year then ended and the consolidated balance sheet of the Company and its subsidiaries ("the Group") as at 31 December 2000, the Group's consolidated profit and loss account and consolidated cash flow statement for the year then ended (set out in form 1 to 8). The Company is responsible for the financial statements. It is our responsibility to form an audit opinion, based on our audit, on those financial statements. Our audit was conducted in accordance with China Certified Public Accountants' Independent Auditing Standards and consequently included such auditing procedures as were considered necessary and appropriate to the Company's circumstances, including examination, on a test basis, of the Company's transactions and accounting records.

In our opinion, the above-mentioned financial statements present fairly, in all material respects, the financial position of the Group and the Company at 31 December 2000 and their results of operation and cash flows of the Group and the Company for the year then ended in accordance with the Accounting Standards for Business Enterprises of the People's Republic of China and the Accounting Regulation of the People's Republic of China for Joint Stock Company with limited liabilities. The accounting policies used in the preparation of the financial statements for the year are consistent with those used in the preceding year.

Guangzhou Yangcheng CPAs Co., Ltd.

*Certified Public Accountants registered in
the People's Republic of China*
Huang Wei Cheng

*Certified Public Accountants registered in
the People's Republic of China*
Zhang Ning

Guangzhou, PRC

20 April 2001

Consolidated Balance Sheet

As at 31st December 2000

Form 1
Unit: Rmb

Assets	Note	1999	2000	Liabilities and Equity	Note	1999	2000
Current assets				Current liabilities			
Cash and cash equivalent	4-1	508,153,551.35	488,332,578.45	Short term loans	4-16	608,150,000.00	48,000,000.00
Short term investments		—	—	Notes payable		—	—
Less: Provision for short term investments		—	—	Accounts payable	4-17	474,492,132.55	516,726,227.60
Net short term investments		—	—	Advance from customers		8,797,592.15	29,738,338.70
Notes receivable		121,780.02	2,596.27	payables for consignment sale		—	—
Dividends receivable	4-2	1,868,200.00	3,013,835.00	Wages payable		97,080,066.70	111,024,667.40
Interest receivable		—	—	Welfare payable		29,593,649.83	33,778,720.32
Accounts receivable	4-3	524,477,487.13	506,610,051.00	Dividend payable	4-18	21,896,294.04	29,430,097.16
Other receivable	4-4	195,966,407.15	180,227,515.73	Tax payable	4-19	18,405,021.26	35,519,653.23
Less: Provision for doubtful debts	4-3&4	46,492,801.91	46,279,640.70	Other liabilities	4-20	2,252,705.82	3,237,358.22
Net receivable		673,951,092.37	640,557,926.05	Other payables	4-21	158,547,563.82	229,273,428.07
Prepayments	4-5	69,088,565.29	8,425,742.30	Accrued expenses	4-22	4,235,096.97	4,639,122.33
Subsidy receivable	4-6	1,661,604.28	3,142,220.86	Current portion of long term loans	4-23	18,000,000.00	34,000,000.00
Inventories	4-7	681,715,660.10	791,476,879.72			—	—
Less: provision for inventories	4-7	7,770,933.60	1,014,378.94				
Net Inventories		673,944,726.50	790,462,500.78				
Deferred expenses	4-8	48,689,287.97	59,271,091.50				
Current assets awaiting write off		(445,035.90)	116,659.25				
Current portion of long term loans		2,466,650.00	—				
Other current assets		—	—				
Total current assets		1,979,500,421.88	1,993,325,150.44	Total current liabilities		1,441,450,123.15	1,505,367,613.03
Long term investments				Long term liabilities			
Long term equity investments	4-9	72,377,093.68	80,324,343.22	Long term loans	4-24	27,600,000.00	65,000,000.00
Long term debentures investments	4-10	1,291,896.00	291,896.00	Debentures payable		—	—
Total long term investments		73,668,989.68	80,616,239.22	Long term payable	4-25	121,737,206.16	14,119,798.94
including: Good will	4-9	1,976,316.82	1,890,389.98	Housing fund		(56,075,320.74)	—
Less: Provision for long term investment	4-9	1,185,315.05	1,185,315.05	Other long term liabilities		5,000,000.00	5,453,431.26
Net long term investments		72,483,674.63	79,430,924.17	Total long term liabilities		98,261,885.42	84,573,230.20
Fixed assets				Deferred tax		—	—
Cost	4-11	904,903,944.36	973,321,383.27	Deferred tax liabilities		—	—
Less: Accumulated depreciation	4-11	275,525,343.45	330,510,825.50				
Net bosh value		629,378,600.91	642,810,557.77	Total liabilities		1,539,712,008.57	1,589,940,843.20
Construction Supplies		—	—	Minority Interest		95,602,469.15	100,869,433.40
Construction in progress	4-12	189,739,536.40	208,338,202.90				
Fixed fixed assets		—	(1,500.00)	Shareholders' equity			
Fixed assets awaiting write off		—	—	Share Capital	4-26	732,900,000.00	732,900,000.00
Total fixed assets		819,118,137.31	851,147,260.67	Capital reserve	4-27	434,244,471.81	445,108,742.81
Intangible and other assets				Surplus reserve	4-28	180,424,972.17	194,075,967.94
Intangible assets	4-13	105,103,703.63	111,470,384.70	including: public welfare fund	4-28	52,726,720.87	68,210,610.93
Pre-operating expense	4-14	2,972,968.36	71,336.92	Retained earnings	4-29	18,402,753.61	1,019,835.79
Long term deferred expenses	4-15	22,107,769.49	28,469,766.27	Total shareholders' equity		1,365,972,197.58	1,373,104,546.54
Other long term assets		—	—				
Total intangible and other assets		130,184,441.48	140,011,487.89				
Deferred tax		—	—				
Deferred tax assets		—	—				
Total assets		3,001,286,675.30	3,063,914,823.17	Total liabilities and equity		3,001,286,675.30	3,063,914,823.17

Consolidated Profit and Loss Account

For the year ended 31 December 2000

Form 2
Unit: Rmb
1999

Items	Notes	2000	1999
Sales	4-30	4,265,333,812.92	3,494,180,972.86
Less: discounts		42,476,796.95	39,690,604.74
Net sales		4,222,857,015.97	3,454,490,368.12
Cost of sales	4-31	3,201,331,862.39	2,588,555,951.24
Less: sales tax	4-32	19,792,568.06	18,324,359.86
Profit from principal operations		1,001,732,585.52	847,610,057.02
Add: Other revenue	4-33	36,439,662.67	35,505,133.57
Less: Loss on stock		(832,880.63)	20,146.35
Less: Selling expense		348,172,061.02	277,367,194.95
Less: Administration expense		467,337,061.35	404,412,517.33
Less: Financial expense	4-34	27,913,527.64	38,597,076.28
Profit from operations		195,582,478.81	162,718,255.68
Add: Investment income	4-35	4,647,887.81	2,492,254.87
Add: Subsidy income		9,288,486.45	—
Add: Non-operating income	4-36	18,407,208.86	24,504,645.65
Less: Non-operating expense	4-37	7,990,254.09	9,743,620.11
Profit before tax		219,935,807.84	179,971,536.09
Less: Taxation	4-38	62,725,426.49	41,853,028.03
Less: Minority interest		10,976,198.58	9,455,191.48
Net profit		<u>146,234,182.77</u>	<u>128,663,316.58</u>

Supplementary consolidated profit and loss account

For the year ended 31 December 2000

Form 2-2

Unit: Rmb

	2000				1999			
	Return on net assets		Earning per share		Return on net assets		Earning per share	
	based on		based on		based on		based on	
	weighted	average	weighted	average	weighted	average	weighted	average
based on	shareholders'	based on	shareholders'	based on	shareholders'	based on	shareholders'	
balance of	equity at	balance of	equity at	balance of	equity at	balance of	equity at	
shareholders'	the beginning	shareholders'	the beginning	shareholders'	the beginning	shareholders'	the beginning	
equity at	and the end	equity at	and the end	equity at	and the end	equity at	and the end	
year end	of the year	year end	of the year	year end	of the year	year end	of the year	
Profit for the period								
Profit from principal operations	72.95%	69.53%	1.37	1.37	62.05%	64.06%	1.16	1.16
Profit from operations	14.24%	13.57%	0.27	0.27	11.91%	12.30%	0.22	0.22
Net profit	10.65%	10.15%	0.20	0.20	9.42%	9.72%	0.18	0.18
Net profit before non operating items	9.21%	8.78%	0.17	0.17	8.34%	8.61%	0.16	0.16

Consolidated profit appropriation statement

For the year ended 31 December 2000

Form 3
Unit: Rmb
1999

Items	Notes	2000	1999
1. Net profit		146,234,182.77	128,663,316.58
Add: Retained earnings brought forward	4-3	(50,195,637.73)	12,070,109.58
Add: Transfer from surplus reserves		—	—
2. Distributable profit		96,038,545.04	140,733,426.16
Less: Transfer to surplus reserves		34,442,904.57	28,345,413.38
Less: Transfer to public welfare fund		34,442,804.68	28,227,556.31
3. Distributable profits to shareholders		27,152,835.79	84,160,456.48
Less: Dividend for preference shares		—	—
Less: Transfer to discretionary surplus reserves		—	29,112,202.87
Less: Dividend for ordinary shares		14,658,000.00	36,645,500.00
Less: Dividend for ordinary shares transfer to shares capital		—	—
4. Retained earnings		12,494,835.79	18,402,753.61

Consolidated Cash Flows Statement

For the year ended 31 December 2000

Form 4
Unit: Rmb
Amount

Items	Amount
1. Cash flow from operating activities	
Cash received from sale of goods or rendering of services	5,002,531,192.11
Rental payment received	27,283,960.40
Refund of tax	11,733,484.10
Other cash received relating to operating activities	193,008,483.40
Sub-total of cash inflows	5,234,557,120.01
Cash paid for goods and services	3,769,785,494.43
Cash paid for operating leases	22,166,199.18
Cash paid to or on behalf of employees	375,519,054.88
Value Added Tax paid	208,471,587.46
Income tax paid	40,720,708.31
Taxes paid other than Value Added Tax and income tax	45,783,971.34
Other cash paid relating to operating activities	485,158,779.30
Sub-total of cash outflows	4,947,605,794.90
Net cash flows from operating activities	286,951,325.11
2. Cash flow from investing activities	
Cash received from sale of investments	3,554,491.21
Cash received from distribution of dividend or profits	4,196,033.30
Cash received from bond interest income	914,700.36
Proceeds from sale of fixed assets, intangible assets and other long-term assets	1,522,734.37
Other cash received relating to investing activities	4,734,379.59
Sub-total of cash inflows	14,922,338.83
Cash paid to acquire fixed assets, intangible assets and other long-term assets	163,527,356.13
Cash paid to acquire equity investments	23,536,666.00
Cash paid to acquire debt investments	10,000,000.00
Other cash paid relating to investing activities	21,662,690.75
Sub-total of cash outflows	218,726,712.88
Net cash flows from investing activities	(203,804,374.05)

Consolidated Cash Flows Statement

For the year ended 31 December 2000

Form 4
Unit: Rmb
Amount

Items	
3. Cash flows from financing activities	
Proceeds from issuing shares	—
Proceeds from subsidiaries acquiring equity investments from minority shareholders	—
Proceeds from issuing bonds	—
Proceeds from borrowings	633,950,000.00
Other proceeds related to financing activities	126,406,810.55
Sub-total of cash inflows	760,356,810.55
Cash repayments on amounts borrowed	715,248,523.80
Cash payments of expenses on any financing activities	1,280,472.87
Cash payments for distribution of dividend or profits	39,830,432.51
Cash payments for distribution of dividend or profits minority shareholders	5,156,883.90
Cash payments of interest expenses	39,517,639.69
Cash payments for finance lease	697,983.73
Cash payments for reduction of registered capital	—
Cash payments for reduction of registered capital to minority shareholders	—
Other cash payments relating to financing activities	61,058,029.94
Sub-total of cash outflows	862,789,966.44
Net cash flows from financing activities	(102,433,155.89)
4. Effect of foreign exchange rate changes on cash	(534,768.07)
5. Net increase (decrease) in cash and cash equivalents	(19,820,972.90)

Consolidated Cash Flow Statement

For the year ended 31 December 2000

Unit: Rmb
Amount

Items	Amount
1. Investing and financing activities that do not involve cash receipt and payments	
Repayment of debts by the transfer of fixed assets	0.00
Repayment of debts by the transfer of investments	0.00
Investments in the form of fixed assets	0.00
Repayment of debts by the transfer of inventories	0.00
Fixed assets in the form of financial lease	0.00
2. Reconciliation of net profit to cash flows from operating activities	
Net profit	146,234,182.77
Add: Provision for bad debts or bad debts written off	18,248,678.00
Depreciation of fixed assets	57,109,334.14
Amortisation of intangible assets	2,951,052.15
Losses on disposal of fixed assets, intangible assets and other long term assets (less: gains)	1,515,194.91
Losses on scrapping of fixed assets	1,714,142.98
Financial expense	31,146,216.12
Loss arising from investments (less: gains)	(4,647,887.81)
Deferred tax credit (less: debit)	0.00
Decrease in inventories (less: increase)	(108,517,553.74)
Decrease in operating receivables (less: increase)	85,728,804.39
Increase in operating payables (less: decrease)	55,469,161.20
Increase in Value Added Tax (less: decrease)	0.00
Others	0.00
Net cash flows from operating activities	286,951,325.11
3. Net increase in cash and cash equivalents	
Cash at the end of year	488,332,578.45
Less: cash at the beginning of year	508,153,551.35
Plus: cash equivalents at the end of year	0.00
Less: cash equivalents at the beginning of year	0.00
Net increase (decrease) in cash and cash equivalents	(19,820,972.90)

Balance Sheet

As at 31st December 2000

Form 5
Unit: Rmb

Assets	Note	1999	2000	Liabilities and Equity	Note	1999	2000
Current assets				Current liabilities			
Cash and cash equivalent		137,821,808.82	128,224,828.98	Short term loans		—	30,000,000.00
Short term investments		—	—	Notes payable		—	—
Less: Provision for short term investments		—	—	Accounts payable		—	—
Net short term investments		—	—	Advance from customers		—	—
Notes receivable		—	—	Payable for consignment sale		—	—
Dividends receivable		2,981,200.00	3,399,486.99	Wages payable		3,005,511.20	2,629,148.66
Interest receivable		—	—	Welfare payable		1,064,192.76	1,508,741.73
Accounts receivable		—	—	Dividend payable		22,081,159.74	24,357,008.29
Other receivable	5-1	161,198,554.15	240,755,152.94	Tax payable		159,253.21	67,207.95
Less: Provision for doubtful debts		—	150,613.06	Other liabilities		4,424.00	7,577.98
Net receivable		161,198,554.15	240,604,539.68	Other payable		(1,300,388.47)	41,762,503.53
Prepayments		—	—	Accrued expenses		2,810,565.00	3,090,965.00
Subsidy receivable		—	—	Current portion of long term loans		—	—
Inventories		—	—				
Less: provision for inventories		—	—				
Net Inventories		—	—				
Deferred expenses		—	—				
Current assets anniting write off		—	—				
Current portion of long term loans		—	—				
Other current assets		—	—				
Total current assets		302,001,562.97	372,228,855.85	Total current liabilities		30,425,494.38	103,423,153.14
Long term investments				Long term liabilities			
Long term equity investments	5-2	1,066,535,759.51	1,078,002,310.95	Long term loans		—	—
Long term debentures investments		—	—	Debentures payable		—	—
Total long term investments		1,066,535,759.51	1,078,002,310.95	Long term payable		—	—
Less: Provision for long term investments		—	—	Housing fund		89,216.78	—
Net long term investments		1,066,835,759.51	1,078,002,310.95	Other long term liabilities		—	—
Fixed assets				Total long term liabilities		89,216.78	—
Cost		26,467,466.89	26,325,190.76	Deferred tax		—	—
Less: Accumulated depreciation		1,364,578.06	3,064,431.00	Deferred tax liabilities		—	—
Net bosh value		25,102,888.83	23,260,759.76				
Construction supplies		—	—	Total liabilities		30,514,711.16	103,423,153.14
Construction in progress		—	—				
Fixed assets disposals		—	—				
Fixed assets awaiting write off		—	—	Shareholders' equity			
Total fixed assets		25,102,888.83	23,260,759.76	Share Capital		732,900,000.00	732,900,000.00
Intangible and other assets				Capital reserve		434,244,471.81	445,108,742.81
Intangible assets		—	—	Surplus reserve		55,786,345.16	88,268,589.29
Pre-operating expense		—	—	including: public welfare fund		25,303,664.96	41,544,786.52
Long term deferred expenses		2,846,697.43	3,035,773.13	Retained earnings		143,041,380.61	106,827,214.45
Other long term assets		—	—	Total shareholders' equity		1,365,972,197.58	1,373,104,546.54
Total intangible and other assets		2,846,697.43	3,035,773.13				
Deferred tax		—	—				
Deferred tax assets		—	—				
Total assets		1,396,486,908.74	1,476,527,699.68	Total liabilities and equity		1,396,486,908.74	1,476,527,699.68

Profit and Loss Account

For the year ended 31st December 2000

Form 6
Unit: Rmb
1999

Items	2000	1999
Sales	—	—
Less: discounts	—	—
Net sales	—	—
Cost of sales	—	—
Less: sales tax	—	—
Profit from principal operations	—	—
Add: Other revenue	2,433,359.33	4,458,575.07
Less: Loss of stock	—	—
Less: Selling expense	—	—
Less: Administrative expense	13,594,661.68	14,519,341.87
Less: Financial expense	(5,357,377.21)	(5,750,827.01)
Profit from operations	(5,803,925.14)	(4,309,939.79)
Add: Investment income	152,166,042.72	132,973,836.44
Add: Subsidy income	—	—
Add: Non-operating income	10,344.91	—
Less: Non-operating expense	138,279.72	580.07
Profit fore tax	146,234,182.77	128,663,316.58
Less: Taxation	—	—
Net profit	<u>146,234,182.77</u>	<u>128,663,316.58</u>

Profit appropriation statement

For the year ended 31st December 2000

Form 7
Unit: Rmb
1999

Items	2000	1999
1. Net profit	146,234,182.77	128,663,316.58
Add: Retained earnings brought forewent	28,824,868.24	76,756,227.35
Add: Transfer from surplus reserves	—	—
2. Distributable profit	175,059,051.01	205,419,543.93
Less: Transfer to statutory surplus reserves	14,623,418.28	12,866,331.66
Less: Appropriation for public welfare fund	14,623,418.28	12,866,331.66
3. Distributable profit to shareholders	145,812,214.45	179,686,880.61
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	38,985,000.00	36,645,500.00
Less: Dividend for ordinary shares transfer to share capital	—	—
4. Retained earnings	106,827,214.45	143,041,380.61

Cash flow statement

For the year ended 31st December 2000

Form 8
Unit: Rmb
Amount

Items	Amount
1. Cash flow from operating activities	
Cash received from sale of goods or rendering of services	—
Rental payment received	—
Refund of tax	179,021.21
Other cash received relating to operating activities	7,368,832.64
Sub-total of cash inflows	7,547,853.85
Cash paid for goods and services	—
Cash paid for operating leases	1,081,200.00
Cash paid to or on behalf of employees	4,304,263.08
Value Added Tax paid	—
Income tax paid	—
Taxes paid other than Value Added Tax and income tax	92,045.26
Other cash paid relating to operating activities	3,991,792.09
Sub-total of cash outflows	9,469,300.43
Net cash flows from operating activities	(1,921,446.58)
2. Cash flow from investing activities	
Cash received from sale of investments	—
Cash received from distribution of dividend or profits	69,894,407.26
Cash received from bond interest income	—
Proceeds from sale of fixed asset	—
Other cash received relating to investing activities	—
Sub-total of cash inflows	69,894,407.26
Cash paid to acquire fixed assets, intangible assets and other long-term assets	3,375,192.86
Cash paid to acquire equity investments	47,000,000.00
Cash paid to acquire debt investments	52,999,043.05
Other cash paid relating to investing activities	5,000,000.00
Sub-total of cash outflows	108,374,235.91
Net cash flows from investing activities	(38,479,828.65)

Cash flow statement

For the year ended 31st December 2000

Form 8
Unit: Rmb
Amount

Items	
3. Cash flows from financing activities	
Proceeds from issuing shares	—
Proceeds from subsidiaries acquiring equity investment from minority shareholders	—
Proceeds from issuing bonds	—
Proceeds from borrowings	70,000,000.00
Other proceeds related to financing activities	—
Sub-total of cash inflows	70,000,000.00
Cash repayments of amounts borrowed	—
Cash payments of expenses on any financing activities	1,201,700.58
Cash payments for distribution of dividend or profits	36,709,151.45
Cash payments for distribution of dividend or profits to minority shareholders	—
Cash payments of interest expenses	751,905.00
Cash payments for finance lease	—
Cash payments for reduction of registered capital	—
Cash payments for reduction of registered capital to minority shareholders	—
Other cash payments relating to financing activities	—
Sub-total of cash outflows	38,662,757.03
Net cash flows from financing activities	31,337,242.97
4. Effect of foreign exchange rate changes on cash	(532,947.58)
5. Net increase (decrease) in cash and cash equivalents	(9,596,979.84)

Cash Flow Statement

For the year ended 31st December 2000

Unit: Rmb

Notes

Items

1.	Investing and financing activities that do not involve cash receipt and payments	
	Repayment of debts by the transfer of fixed assets	0.00
	Repayment of debts by the transfer of investments	0.00
	Investments in the form of fixed assets	0.00
	Repayment of debt by the transfer of inventories	0.00
	Fixed assets in the form of financial lease	0.00
2.	Reconciliation of net profit to cash flows from operating activities	
	Net profit	146,234,182.77
	Add: Provision for bad debts or bad debts written off	0.00
	Depreciation of fixed assets	1,699,852.94
	Amortisation of intangible assets	0.00
	Losses on disposal of fixed assets, intangible assets and other long term assets (less: gains)	0.00
	Losses on scrapping of fixed assets	0.00
	Financial expense	767,250.00
	Loss arising from investments (less: gains)	(152,166,042.72)
	Deferred tax credit (less: debit)	0.00
	Decrease in inventories (less: increase)	0.00
	Decrease in operating receivables (less: increase)	(17,127,348.27)
	Increase in operating payables (less: decrease)	18,670,658.70
	Increase in Value Added Tax (less: decrease)	0.00
	Others	0.00
	Net cash flows from operating activities	(1,921,446.58)
3.	Net increase in cash and cash equivalents	
	Cash at end of year	128,224,828.98
	Less: cash at beginning of year	137,821,808.82
	Plus: cash equivalents at the end of year	0.00
	Less: cash equivalents at the beginning of year	0.00
	Net increase (decrease) in cash and cash equivalents	(9,596,979.84)

Notes to the Accounts

1 COMPANY BACKGROUND AND PRINCIPAL ACTIVITIES

Guangzhou Pharmaceutical Company Limited (the “Company”) is a joint stock company with limited liability established pursuant to a reorganization of eight Chinese patent medicine manufacturing entities and three pharmaceutical trading entities formerly under the supervision and control of Guangzhou Pharmaceutical Holdings Limited (the “Holding”) with the capital injection of operating assets and the state owned equity in accordance with the document Tigaisheng [1997] 139 issued by the Economic Structure Reform Committee of the State. The Company obtained a business license with the official code of 63320680-x on 1 September 1997. Pursuant to the document Tigaisheng [1997] 145 issued by the Economic Structure Reform Committee of the State and the document Zhengweifa [1997] 56 issued by the Securities Committee of the State Council, the Company issued H shares which subsequently listed on The Stock Exchange of Hong Kong Limited in October 1997. The total number of shares of the Company is 732,900,000, including shares owned by the State of 513,000,000, comprising 70% of the total shares, and public shares of 219,900,000, comprising 30% of the total shares.

The Company and its subsidiaries (the “Group”) are engaged in asset management, investment, financing, the research, development and manufacturing of Chinese patent medicine, biological products, health medicines and drinks, and the wholesale, retail and import and export of Chinese patent medicine, Western pharmaceutical products and various medical apparatus.

The Company’s structure presently includes eight Chinese patent medicine manufacturing entities and three pharmaceutical trading entities.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION

1. Accounting Policies

The accounting policies adopted by the Company are in accordance with “Accounting Standard for Business Enterprises”, “Accounting Regulations for Company Limited by Share” and its supplementary notice.

2. Accounting Period

The accounting period covers the calendar year from 1 January to 31 December.

3. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

4. Basis of accounting and Valuation Convention

The basis of accounting adopted by the Company is the accrual basis and assets are recorded using the historical cost convention.

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

5. Foreign Currency Translation

Foreign currency transactions during the year are translated into Renminbi at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the exchange rates stipulated by the People's Bank of China at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account.

6. Cash Equivalents

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

7. Basis of Preparation of Consolidated Financial Statements

- 1) The consolidated financial statements are prepared in accordance with the documents, Caizhengbu [1995] 11, of "Temporary regulation of consolidation of financial statements" and Caikuaierzi [1996] 2, "Reply on the queries of scope of consolidation for consolidated financial statements". The consolidated financial statements have included all principal subsidiaries and eliminated all the business transactions among the Company and its subsidiaries or among subsidiaries, based on the individual financial statements of each subsidiary in the scope of consolidation.
- 2) Subsidiaries in the consolidation scope of the consolidated financial statements

	Registered capital	Invested amount of the Company to its subsidiaries	% of equity interest	Principle activities
Name of the Company	Rmb ten thousand	Rmb ten thousand		
1 Guangzhou Xing Qun Pharmaceutical Co., Ltd.	5,350	4,500	84.11	Production of Chinese patent medicine
2 Kwang Chow First Chinese Medicine Factory	1,167	5,053	100	Production of Chinese patent medicine
3 Guangzhou Chen Li Ji Chinese Medicine Factory	752	4,159	100	Production of Chinese patent medicine
4 Guangzhou Zhong Sheng Pharmaceutical Factory	499	2,099	100	Production of Chinese patent medicine

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

7. Basis of Preparation of Consolidated Financial Statements *(continued)*

		Registered capital	Invested amount of the Company to its subsidiaries	% of equity interest	Principle activities
	Name of the Company	Rmb ten thousand	Rmb ten thousand		
5	Guangzhou Qi Xing Pharmaceutical Factory	560	3,163	100	Production of Chinese patent medicine
6	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	6,210	5,210	83.90	Production of Chinese patent medicine
7	Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	4,332	3,532	81.53	Production of Chinese patent medicine
8	Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	6,189	5,389	87.07	Production of Chinese patent medicine
9	Guangzhou Pharmaceutical Corporation	835	5,938	100	Trading of Western pharmaceutical products and medical apparatus
10	Guangzhou Chinese Medicine Corporation	882	4,644	100	Trading of Chinese patent medicine and Chinese raw medicine
11	Guangzhou Pharmaceutical Import & Export Corporation	257	354	100	Import and export of medicine

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

7. Basis of Preparation of Consolidated Financial Statements *(continued)*

- 3) Subsidiaries with over 50% equity interest held by the Company but not included in the consolidation are as follows:

The Company holds 75% equity interest in Guangzhou Yangcheng Pharmaceutical Health Product Co., Ltd., but does not include it in the consolidation since it has entered into liquidation and no longer operates.

The Company holds 70% equity interest in Guangzhou Guangjing Chinese Patent Medicine Innovation Center Co., Ltd., but does not include it in the consolidation based on the materiality principal since its total assets, sales and net profit to which the Company is entitled to for each period are all below 10% of those of the total of the Company and its subsidiaries.

The Company holds 51% and 53% equity interest of Guangzhou Xing Qun Trading and development Co., Ltd. and Guangdong Xinghua Health Drink Co., Ltd. respectively, but does not include them in the consolidation as the Company does not have substantial control over these two companies pursuant to relevant contracts and articles of association.

- 4) Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of Guangzhou Qi Xing Pharmaceutical Factory, is a foreign investment enterprise which shall apply “The accounting regulation for foreign investment enterprises in the People’s Republic of China” and did not provide a provision for doubtful debts in accordance with the document, Caihuizi [1999] 35, “Notice of supplementary regulation on relevant accounting treatment in joint stock company with limited liability”. The Company made an adjustment for such provision for doubtful debts while preparing the consolidated financial statements as set out in Point 8.

8. Provision for Doubtful Debts

The Company provides allowance for bad debts by making provision in the balance sheet. The provision will be off set when actual bad debts arise.

The standard of bad debts recognition: If the debtor becomes bankrupt or dies, the amount remaining after deducting that portion of the debt repaid through the recoup of the liquidated assets or estates will be the amount of the unpaid receivable. The debtor does not pay back a debt that has been outstanding for three years, and it has been determined as impossible to recover after the approval of the Board of Directors.

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

8. Provision for Doubtful Debts *(continued)*

According to the requirement issued in document of Caihuizi (1995) 35 by the Ministry of Finance and the policy of bad debts provision approved by the Board of Directors, the Company provides and an allowance for bad debts based on the aging of receivable balances. In addition, the Company provides a special provision for high risk receivables based on the financial status and liquidity of the debtor.

The provision and its rate is based on the aging of receivable balances as follows:

Ageing analysis	Provision
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 receivable includes accounts receivable and other receivables. The Company provides a provision for other receivable after deduction of the balance of inter-company debtors, unreimbursed business disbursements and other current accounts not involve return of working capital.

9. Inventories

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

Inventories are accounted for at cost and are recorded in the perpetual inventory record.

Subsidiaries consolidated include manufacturing enterprises and trading enterprises. The respective basis of accounts of inventories is as follows,

(1) *Manufacturing enterprises:*

The amount of raw materials stated at standard cost will be adjusted for price variances to arrive at the actual cost at month end. Raw materials stated at acquisition cost are accounted for on a weighted average basis or first-in-first-out basis.

Finished goods are stated at acquisition cost and accounted for on a weighted average basis.

Low-value consumables are stated at cost and write off at issuance.

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

9. Inventories *(continued)*

(2) Trading enterprises:

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

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

Inventories are stated at lower of cost and net realizable value at year end. The Company provides a provision for inventories.

10. Long-term equity investments

Long term equity investments of the Company are stated at cost.

Those enterprises in which the Company has made an investment that represents less than 20% of the investee's issued capital, are stated at cost. Those enterprises in which the Company has made an investment that represents more the 20% but less than 50% of the investee's issued capital, the equity method of accounting is adopted. Investments made which represent more or less than 50% of the investee's issued capital, , but of which the Company has substantial control, the equity method of accounting is adopted and consolidated financial statements are prepared.

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

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

11. Long-term bond investments

Bonds invested by the Company are stated at investment cost.

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

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION (continued)

12. Provision for long-term investments

According to the document, Caihuizi (1999) No. 35 issued by the Ministry of Finance and approved by the Board of Directors, in the event of a continuing decline in market value or changes in operating conditions of the investee enterprise where the decline will not be recovered in the foreseeable future, the Company will provide for this based on the difference between the recoverable amount and the carrying amount of the investment.

13. Fixed Assets and Depreciation

Fixed assets include buildings, motor vehicles, machinery and equipment which have useful lives over one year and unit costs greater than Renminbi 2,000 . Fixed assets are stated at cost. Depreciation is provided to write off the cost over their useful lives on a straight-line method, after taking into account the estimated residual value of 3% to 5% (10% for foreign investment enterprises). The annual rates of depreciation are as follows:

Fixed assets category	Depreciation life	Depreciation Rate
Buildings	15~50 years	1.9%~6.46%
Machinery and equipment	4~18 years	5.28%~24.25%
Motor vehicles	5~10 years	9.5%~19.4%
Electrical equipment	5~10 years	9.5%~19.4%
Office equipment	4~8 years	11.875%~24.25%
Other equipment	4~15 years	6.33%~24.25%

14. Intangible Assets and its Amortisation

Intangible assets, which are mainly land use rights, are stated at cost. Amortization is provided to write off the cost evenly over their useful lives.

15. Pre-operating expenses

Pre-operating expenses are stated at cost. Amortization is provided to write off the cost evenly over a period of not more than 5 years from the first month after the month of commencing operations.

16. Long-term deferred expenses

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

17. Accounting for borrowing cost

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

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

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

18. Recognition of income

Income in respect of sales of goods is recognized when the title to the goods and its major risks and rewards are passed to customers; the Company no longer has the right of supervision and control over the goods; either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale can be estimated reliably.

Income in respect of service rendered is recognized when service is provided and either the fees are received or entitlement to fees is evidenced.

19. Taxation

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

20. Change in accounting estimates

The Company provided a 50% provision on receivables with aging over 3 years in previous years. As approved by the Board of Directors, from 1 January 2000, the Company provides the provision using the method set out in Note 8 above on receivables with aging over 3 years. This is set out as follows: provide a 50% provision for those with aging of 3 to 4 years; provide a 80% provision for those with aging of 4 to 5 years; provide a 100% provision for those with aging over 5 years. These changes in estimates has increased the provision by Rmb7.95 million.

21. Profit appropriation

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

- 1) making up losses;
- 2) allocation of 10% to statutory surplus reserve fund;
- 3) allocation of 10% to statutory public welfare fund;
- 4) allocation to discretionary surplus reserve fund;
- 5) payment of dividends.

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

Notes to the Accounts

3 TAXATION AND OTHER ADDITIONAL TAXES

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

1. Turnover tax and other additional taxes

1) Turnover tax

Activity category	Tax category	Tax rate
Sales of goods	Value Added Tax (“VAT”)	17%
Sales of materials	Value Added Tax	17%
Rental income	Business Tax	5%
Income from loan receivable	Business Tax	8%

2) City construction tax

The city construction tax is calculated and paid based on 7% of the total amount of VAT. Subsidiaries of the Group which are foreign invested enterprises are not subjected to city construction tax in accordance with PRC regulations.

3) Education levies

The education levies is calculated and paid based on 3% of total taxable turnover. Subsidiaries of the Group which are foreign invested enterprises are not subjected to education fee tax in accordance with PRC regulations.

2. Enterprises income tax

The Group accrues and pays enterprises income tax in accordance with “Temporary regulation of enterprises income tax in the People’s Republic of China”. Pursuant to the document Yuefu [1998] 47 issued by the Government of Guangdong Province and Suifu [1998]39 issued by the Guangzhou Municipal Government, the Company and its subsidiaries are entitled to a tax refund privilege during the period of “the 9th five years project” from 1 September 1997 (date of establishment of the Company) to 31 December 2000 with a prevailing tax rate of 15%.

Pursuant to “Corporate enterprises Tax Law for Foreign Invested Enterprise in the People’s Republic of China”, Guangzhou Qi Xing Pharmaceutical Company Limited, one of the Company’s subsidiary, applies the corporate income tax rate of 24% and local income tax rate of 3%.

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts are stated in Rmb Yuan unless otherwise stated)

1. Bank balances and cash

	1999	2000
Cash on hand	698,306.26	607,564.33
Cash at bank	505,692,844.94	485,986,024.73
Other balances	1,762,400.15	1,738,989.39
	<u>508,153,551.35</u>	<u>488,332,578.45</u>

1) Breakdown of bank balances

	1999	2000
Saving and current accounts	374,685,544.94	361,802,695.33
Fixed deposit	131,007,300.00	124,183,329.40
	<u>505,692,844.94</u>	<u>488,332,578.45</u>

2) Break down of other balances

	1999	2000
Credit card deposit	1,240,469.30	1,168,594.48
Deposit for letter of credit	521,930.85	570,394.91
	<u>1,762,400.15</u>	<u>1,738,989.39</u>

2. Dividend receivable

The balance of dividend receivable amounted to Rmb 3,013,835 and represents the dividend of year 2000 due from Naihai Southern Packing Company Ltd.

Notes to the Accounts

IV NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Accounts receivable

- 1) Ageing analysis of accounts receivable as at 31 December, 2000

Ageing	1999			2000		
	Balance	Percentage	Bad debt provision	Balance	Percentage	Bad debt provision
Within 1 year	423,725,205.81	81%	5,156,676.20	428,329,129.31	85%	4,432,239.56
1-2 years	30,810,396.59	7%	4,370,313.99	22,436,085.03	4%	2,825,263.85
2-3 years	28,468,699.27	5%	7,633,057.14	15,632,048.55	3%	5,388,288.34
3-4 years	28,890,664.06	5%	14,107,187.7	22,145,204.91	4%	11,492,785.66
4-5 years	7,852,939.13	1%	3,047,614.36	8,954,724.66	2%	7,454,011.36
Over 5 years	4,729,582.27	1%	3,581,790.65	9,112,858.54	2%	9,112,858.54
	<u>524,477,487.13</u>	100%	<u>37,896,640.06</u>	<u>506,610,051.00</u>	100%	<u>40,705,447.31</u>

- 2) From the balance aforementioned, no current account is due from shareholders whose share is over 5% of the total share.
- 3) From the balance aforementioned, the five customers with largest balance are listed below.

	2000	Aging	Reason
Operation Department of Nanhai Pharmaceutical Group	15,980,000.00	Within 1 year	Within credit period
Guangdong Chinese Medical Institute	4,676,712.66	Within 1 year period	Within credit period
The first Affiliated Hospital of Guangzhou Chinese Medical College	4,629,001.74	Within 1 year	Within credit period
Zhongshan Medical University Medical Company Ltd.	4,567,971.79	Within 1 year	Within credit period
Affiliated Zhujiang Hospital of the First Army Medical University	4,472,890.66	Within 1 year	Within credit period

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Other receivables

1) Aging analysis of other receivables as at 31 December, 2000

Ageing	1999			2000		
	Balance	Percentage	Bad debt provision	Balance	Percentage	Bad debt provision
Within 1 year	73,225,251.59	37%	17,144.55	73,704,217.96	41%	367,272.10
1-2 years	82,356,900.91	42%	419,767.25	58,810,191.88	33%	302,820.40
2-3 years	8,805,394.91	5%	3,008,477.21	20,646,908.49	11%	802,629.46
3-4 years	25,365,994.82	13%	5,125,772.84	18,340,742.48	10%	3,162,994.4
4-5 years	6,125,545.68	3%	25,000.00	8,663,356.92	5%	876,379.00
Over 5 years	87,319.24	0%	0.00	62,098.00	0%	62,098.00
	<u>195,966,407.15</u>	100%	<u>8,596,161.85</u>	<u>180,227,515.73</u>	100%	<u>5,574,193.39</u>

2) Details of other receivables

	2000
Current account with external company	107,174,296.53
Advance for operation	34,358,528.47
Expense not reimbursed	2,828,685.30
Deposit	25,147,184.26
Advance for stand by purpose	2,389,375.58
Others	8,329,445.59
	<u>180,227,515.73</u>

3) Among the other receivable accounts, the amount due from shareholders with 5% or more shareholding is the amount due from Guangzhou Pharmaceutical Holding Company Limited. The amount due was Rmb 2,499,594.71.

Notes to the Accounts

IV NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Other receivables (continued)

4) Among the balance aforementioned, the five customers with the largest balances are listed below.

Name	Balance	Aging	Reason
Everbright Bank of China Guangzhou Branch	19,500,000.00	Within 1 year	Deposit for investment
Redcross Hospital of Guangzhou	10,149,500.00	Within 1 year	Current account for business, no repayment term
Guangzhou Pharmaceutical Group Ying Bong Sales Company Limited	4,000,000.00	Within 1 year	Related company balance, no repayment term
Guang Dong Xinghua Health Drink Co. Ltd.	3,800,000.00	Within 1 year	Related company balance, no repayment term
Zhong Sheng Hong Hua Company Limited	2,373,771.46	3-4 years	Under litigation, pending judgement, provision has been made
Pan Yu City Fibre Element Factory	2,279,034.99	Within 1 year	Current account for business, no repayment term

5. Advance to suppliers

The closing balance of advance to suppliers is 8,425,742.30. The five suppliers with the largest balances are listed below:

Supplier	2000	Aging	Reason
Zhaoqing Li Wei Pharmaceutical Company Ltd.	2,204,680.63	Within 1 year	Within the contract terms
Hainan Hailin Medical Factory	1,512,059.20	Within 1 year	Within the contract terms
Prepayment for decoration of retail shops	793,798.80	Within 1 year	Within the contract terms
Yunnan Natural medicine Company	624,063.30	Within 1 year	Within the contract terms
Zhuhai Chemical Import and Export Company	211,037.37	Within 1 year	Within the contract terms

6. Subsidy receivable

	1999	2000
Export tax refundable	1,661,604.28	3,140,178.87
Others	0.00	2,041.99
	<u>1,661,604.28</u>	<u>3,142,220.86</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventory

	1999		2000	
	Balance	Provision	Balance	Provision
Goods in transit	6,657,440.83	0.00	5,871,564.98	0.00
Raw material	106,073,429.46	6,424,400.00	86,786,844.93	0.00
Work in progress	26,554,817.41	0.00	40,289,311.68	0.00
Finished goods	40,434,108.43	0.00	53,792,235.55	0.00
Consumables	1,175,269.97	0.00	1,279,083.91	0.00
Packing Material	20,734,960.79	0.00	19,683,529.93	0.00
Goods for process	1,159,228.58	0.00	854,332.54	0.00
Goods for resale	474,900,679.44	1,346,533.60	578,948,233.49	1,014,378.94
Others	4,025,725.19	0.00	2,971,742.71	0.00
	<u>681,715,660.10</u>	<u>7,770,933.60</u>	<u>790,476,879.72</u>	<u>1,014,378.94</u>

The company made a provision of Rmb 1,014,378.94 for obsolete and slow moving stock based on the difference between the cost and net realizable value. The net realizable value of obsolete stock is calculated based on estimated selling price. The net realizable value of slow moving stock is calculated based on market price.

8. Deferred expense

	Opening balance	Addition	Amortization	Closing balance
Insurance expense	2,441,464.46	4,124,281.86	4,085,483.61	2,480,262.71
Repair and maintenance of fixes assets	326,264.52	249,637.86	488,373.09	87,529.29
Road toll	57,629.27	350,044.00	265,873.27	141,800.00
Advertising	1,183,713.20	632,066.68	1,724,546.53	91,233.35
Stamp duty	13,333.34	51,908.94	52,212.78	13,029.50
Consumables	0.00	33,926.92	33,926.92	0.00
Deductible input VAT	43,613,244.86	12,197,567.45	0.00	55,810,812.31
Others	1,053,638.32	1,873,009.79	2,280,223.77	646,424.34
	<u>48,689,287.97</u>	<u>19,512,443.50</u>	<u>8,930,639.97</u>	<u>59,271,091.50</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long term equity investment

Investee	Expired date	Shareholding percentage	Closing balance	Initial amount of investment	Changes under equity method during the year	Provision
Guangdong Xinghua Health Drink Company Limited.	2008	53.00%	40,103,651.30	39,644,000.00	-527,225.89	0.00
Guangdong Xingqun Trading Development Company Limited.	N/A	51.00%	533,941.08	751,427.00	-69,773.05	0.00
Nanhai Southern Packing Company Limited	2011	21.42%	30,000,000.00	30,000,000.00	0.00	0.00
Guangzhou Zhongfu Pharmaceutical Company Limited	N/A	50.00%	1,425,163.13	400,000.00	384,494.79	0.00
Indonesia Sanyou Industrial Company Limited	2014	50.00%	973,076.06	1,420,757.64	0.00	0.00
Gangzhou Yangcheng Pharmaceutical Health Company Limited	N/A	75.00%	595,612.06	2,000,000.00	0.00	0.00
Guangzhou Zhongsheng Medical Factory Taihe Substation	N/A	50.00%	785,315.05	1,000,000.00	0.00	785,315.05 <a>
Guangzhou Guangjin Chinese Medical Technology Innovation Company Limited	2008	70.00%	673,756.80	700,000.00	17,017.55	0.00
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	593,041.50	516,930.33	0.00	0.00
Guangzhou Jihua Medical Appliance Company Limited	N/A	30.00%	500,000.00	500,000.00	0.00	0.00
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	20.52%	615,000.00	615,000.00	0.00	0.00
Chinese Medical Trading Association Co. Ltd.	N/A	10.00%	400,000.00	400,000.00	0.00	400,000.00
Qixing Mazhong Pharmaceutical Company Limited	10	40.00%	362,826.38	362,826.38	0.00	0.00
Transportation Bank Guangzhou Branch	N/A		340,170.83	348,356.00	0.00	0.00
Guangzhou Medicine Company Bei Jing Lu Medicine Store	N/A	20.00%	218,399.05	160,000.00	0.00	0.00
Holding Company of Nine Cities Eleven Factories Association	N/A		50,000.00	0.00	0.00	0.00
Hang Zhou Medical Station Co. Ltd.	N/A	13.47%	264,000.00	264,000.00	0.00	0.00
Consolidation Variance			1,890,389.98	0.00	0.00	0.00 <c>
			<u>80,324,343.22</u>	<u>79,133,297.35</u>	<u>-195,486.60</u>	<u>1,185,315.05</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Long term equity investment *(continued)*

- a. Guangzhou Zhongsheng Medical Factory Taihe Substation has sustained severe losses. The factory was under the process of liquidation in 2000 had and not yet been completed at year end.
- b. Since Chinese Medical Trading Association Co. Ltd. is facing severe operational difficulties, the company is about to quit this investment.
- c. The consolidation variance of Rmb1,890,389.98 represents the variance between the payment, which is paid by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. in October, 2000 to buy 32% share of Guangzhou Pangaoshou Natural Health product Company Limited, and the share of net assets acquired. The share of Guangzhou Pangaoshou Natural Health product Company Limited held by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. increased from 43% to 75%.

10. Long term debenture investment

Debenture	Book value	Expired date	Yearly interest rate	Cost	Opening balance	Accrued interest	Closing balance
Debenture of "Important Company"	120,000.00	1996	7.20%	120,000.00	231,896.00	111,896.00	231,896.00
Capitalised fund for electricity station	60,000.00			60,000.00	60,000.00	0.00	60,000.00
State treasury bond	1,000,000.00	2000.5.14	9.18%	1,000,000.00	1,000,000.00	0.00	0.00
	<u>1,180,000.00</u>			<u>1,180,000.00</u>	<u>1,291,896.00</u>	<u>111,896.00</u>	<u>291,896.00</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Fixed assets and accumulated depreciation

Cost	Opening balance	Addition	Disposal	Closing balance
Building	450,009,330.41	73,452,672.70	37,135,386.69	486,326,616.42
Machinery	339,240,962.44	36,593,802.79	7,805,277.24	368,029,487.99
Transportation Vehicle	81,180,754.60	7,258,519.23	10,072,243.21	78,367,030.62
Electrical equipment	10,191,411.89	2,725,488.12	50,984.00	12,865,916.01
Office equipment	24,281,485.02	5,496,290.21	2,045,443.00	27,732,332.23
	<u>904,903,944.36</u>	<u>125,526,773.05</u>	<u>57,109,334.14</u>	<u>973,321,383.27</u>
Accumulated depreciation	Opening balance	Addition	Disposal	Closing balance
Building	76,595,899.89	18,205,430.03	183,809.60	94,617,520.32
Machinery	149,369,314.62	33,579,775.04	4,775,853.61	178,173,236.05
Transportation Vehicle	33,550,154.96	8,336,777.23	4,971,293.92	36,915,638.27
Electrical equipment	5,069,089.92	1,805,772.96	43,515.86	6,831,347.02
Office equipment	10,940,884.06	4,099,459.58	1,067,259.80	13,973,083.84
	<u>275,525,343.45</u>	<u>66,027,214.84</u>	<u>11,041,732.79</u>	<u>330,510,825.50</u>

- (1) During the year, transfer from construction in progress amounted to Rmb80,522,671.33.
- (2) As at 31 December 2000, bank loans amounting to Rmb576,160,000 (1999: 594, 280,000) was pledged with fixed assets with net book value of Rmb171,738,000 (1999: 273,235,000).

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Construction in progress

Project	Budget	Opening balance	Addition	Transferred to fixed asset	Capitalised interest expense		Financing source	Percentage of progress
					Closing balance	included in closing balance		
Dormitory of Guangzhou Pangaoshou Pharmaceutical Co.		3,468,668.31	1,771,596.62	5,240,264.93	0.00	0.00	Working capital	Completed and settled
Prepayment for equipment		593,453.18	3,168,016.38	2,664,316.38	1,097,153.18	387,541.18	Working capital	Completed but not settled
Prepayment for construction project		204,574.17	3,170,668.33	704,574.17	2,670,668.33	0.00	Working capital	Completed but not settled
Relocation of Guangzhou Xingqun Pharmaceutical Company		68,284,518.63	39,142,492.63	17,578,574.87	89,848,436.39	12,662,129.22	Working Capital and loan	81%
No.1 store of Xiao Yan Wan	2,170,000.00	2,172,729.00	0.00	2,172,729.00	0.00	0.00	Working capital	Completed and checked
Store of Xiang Tai Building	3,420,000.00	3,414,062.72	0.00	3,414,062.72	0.00	0.00	Working capital	Completed and checked
Construction project of Tan Jiang Cun	1,800,000.00	1,801,526.20	0.00	1,801,526.20	0.00	0.00	Working capital	Completed but not settled
Warehouse project of Tan Jiang Cun	12,325,000.00	7,555,751.43	4,301,769.84	0.00	11,857,521.27	730,972.82	Loan	60%
Production base in Song Gang		12,238,167.06	230,388.51	0.00	12,468,555.57	0.00	Working capital	Completed but not settled
Compositive workshop in Shi Qiao		8,584,860.34	1,036,567.36	9,621,427.70	0.00	0.00	Loan	Completed and being used
Office Building in Times Square	29,049,300.00	0.00	32,433,214.79	0.00	32,433,214.79	0.00	Working capital	Completed and being used
Installation of equipment		1,089,803.00	0.00	0.00	1,089,803.00	199,050.00	Working capital	Completed but not settled
Equipment for process workshop		4,799,952.50	73,203.50	4,873,156.00	0.00	0.00	Working capital	Completed but not settled
Process workshop		8,765,820.30	70,614.79	8,836,435.09	0.00	0.00	Working capital	Completed and settled
Road of Process workshop		241,620.00	0.00	241,620.00	0.00	0.00	Working capital	
Store in Hongjia Garden	2,040,000.00	2,042,862.50	0.00	0.00	2,042,862.50	0.00	Working capital	Completed and being decorated

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

Project	Budget	Opening balance	Addition	Transferred to fixed asset	Closing balance	Capitalised interest expense included in closing balance	Financing source	Percentage of progress
Project for environment protection		80,000.00	0.00	0.00	80,000.00	0.00	Working capital	50%
Store in Huayou Building	3,010,000.00	3,010,000.00	0.00	0.00	3,010,000.00	0.00	Working capital	Completed and being decorated
Relocation and expansion of Chenliji factory		31,902,596.52	1,693,956.12	147,151.90	33,449,400.74	0.00	Working capital	98%
Office in Fuqian Building		7,560,000.00	100,000.00	0.00	7,660,000.00	0.00	Working capital	95%
No. in Dong Ri Yuan	1,810,000.00	1,723,672.00	87,274.00	1,810,946.00	0.00	0.00	Working capital	Completed and checked
Store in sunshine garden	1,260,000.00	0.00	1,266,205.00	0.00	1,266,205.00	0.00	Working capital	Completed and being refurbished
Pending CIP to transfer		6,744,943.51	0.00	6,744,943.51	0.00	0.00	Working capital	
Store in Baolifeng Garden	2,590,000.00	2,593,500.00	177,450.00	2,770,950.00	0.00	0.00	Working capital	Checked but not settled
Upgrade project in GMP		8,836,779.12	9,400,506.12	9,199,039.12	9,038,246.12	2,121,020.17	Working capital	Completed but not settled
New cooling project		533,534.32	0.00	533,534.32	0.00	0.00	Working capital	Completed and settled
Others		1,496,141.59	1,000,707.84	2,167,419.42	326,136.01	0.00	Working capital	90%
		<u>189,739,536.40</u>	<u>99,124,631.83</u>	<u>80,522,671.33</u>	<u>208,338,202.90</u>	<u>16,100,713.39</u>		

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Intangible assets

Items	Acquisition method	Cost	Amortization	Accumulated amortization	Closing balance	Remaining amortization period
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	88,423.92	249,027.01	4,052,018.99	45 years
Land use right of Renmin Road factory	Purchase	2,686,602.00	54,828.60	211,359.98	2,475,242.02	45 year
Land use of Guanlv Road	Purchase	40,873.95	890.52	3,562.06	37,311.89	42 year
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,600,547.00	35,094.50	140,383.26	1,460,163.74	42 years 7 months
Land use right of No. 50-54 and No. 72-76 Conggui Road	Purchase	245,477.00	4,909.54	14,728.62	230,748.38	47 year
Land use right of No. 77 of Shanmulan	Purchase	199,200.00	2,324.00	2,324.00	196,876.00	49 years 8 months
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	47,251.65	116,929.07	2,245,652.01	47 years 6 months
Land use right of Southern Guangzhou AvenuePurchase		27,006,173.92	540,123.48	1,800,411.60	25,205,762.32	46 years 8 months
Land use right of No. 32 of Duobao Road Changhua New Street	Purchase	1,062,988.00	37,200.00	75,200.00	987,788.00	27 years
Land use right of Songgang Factory	Purchase	25,333,832.00	517,522.76	5,381,980.86	19,951,851.14	48 years
Land use right of Panyu Dongsheng Industrial District	Purchase	15,947,019.00	319,380.00	1,257,092.32	14,689,926.68	45 years
Land use right of Guangzhou Baiyun District Jiangeun factory	Purchase	3,463,092.00	70,875.72	167,370.39	3,295,721.61	46 years 6 months
Revaluation surplus of land use right	Revaluation surplus	17,928,863.00	495,272.50	1,650,908.14	16,277,954.86	32 years 10 months
Land use right of Huang Jin Wei	Purchase	1,051,697.00	11,843.41	11,843.41	1,039,853.59	36 years 7 months
Land use right of Shi Er Pu New Street	Purchase	3,509,041.00	39,516.20	39,516.20	3,469,524.80	36 years 7 months
Land use right of He Ping West Road	Purchase	1,535,744.00	17,294.39	17,294.39	1,518,449.61	36 years 7 months
Land use right of No.328 in Bei Jing Road	Purchase	130,699.00	11,881.74	35,645.20	95,053.80	9 years
Land use right of No.265 Da Xin Street	Purchase	330,153.00	6,603.06	26,412.24	303,740.76	46 years
Land use right of No.12 Sai Ba Road	Purchase	1,764,522.90	35,290.44	125,120.15	1,639,402.75	46 years 5 months
Land use right of Cai Zhi Lin Hai Qiang Store	Purchase	27,045.00	676.20	2,028.58	25,016.42	37 years

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Intangible assets (continued)

Items	Acquisition method	Cost	Amortization	Accumulated amortization	Closing balance	Remaining amortization period
Land use right of Cai Zhi Lin Tong Ren Store	Purchase	109,032.00	2,725.80	8,177.30	100,854.70	37 years
Land use right of Cai Zhi Lin Sha Yuan Store	Purchase	37,120.00	927.96	2,783.85	34,336.15	37 years
Land use right of A area of Xin Zhou Warehouse	Purchase	1,096,704.00	21,934.08	114,041.20	982,662.80	44 years 10 months
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	53,522.88	272,639.78	2,403,501.22	44 years 11 months
Land use right of Sai Ba Kou Warehouse	Purchase	402,518.00	8,050.32	41,855.88	360,662.12	44 years 10 months
Land use right of Chang An Warehouse	Purchase	114,675.00	2,548.32	12,688.99	101,986.01	40 years
Land use right of Jiu Fo An Warehouse	Purchase	65,136.00	1,628.40	7,750.23	57,385.77	35 years 3 months
Land use right of No.85 in Shang Jiu Road	Purchase	2,973,460.00	66,076.92	329,019.58	2,644,440.42	40 year
Land use right of Dabaotang Medicine store	Purchase	108,461.00	98,267.26	108,461.00	0.00	replaced
Land use right of 26 Hongchang Dajie	Purchase	309,046.00	6,180.96	32,136.40	276,909.60	44 years 10 months
Land use right of 20 Baohua North Road	Purchase	163,591.00	4,089.72	19,464.78	144,126.22	35 years 3 months
Land use right of 44 Biangjiang West Road	Purchase	577,366.00	12,830.28	63,886.52	513,479.48	40 years
Land use right of Panyu Dongsheng Industrial Zone	Purchase	2,816,724.60	58,076.80	358,140.24	2,458,584.36	43 years
Land use right of 33 Xingang Central Road Chigang North Street	Investment	1,755,288.00	35,105.76	70,211.52	1,685,076.48	48 years
Proprietary technology	Investment	499,800.00	49,980.00	199,920.00	299,880.00	6 years
Proprietary technology	Purchase	338,640.00	128,229.37	130,200.00	208,440.00	9 years
		<u>124,570,899.45</u>	<u>2,887,377.46</u>	<u>13,100,514.75</u>	<u>111,470,384.70</u>	

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Pre-operating expense

Cost	3,398,681.32
Amortization in 2000	2,901,631.44
Accumulated amortization	3,327,344.40
Closing balance	71,336.92
Remaining amortization period	3 years

15. Long term deferred expense

Item	Amortization period	Cost	Amortization in 2000	Accumulated amortization	Closing balance	Remaining amortization period
Improvements	4-5 years	18,063,037.89	3,722,209.57	6,390,342.20	11,672,695.69	1-5 years
Expenditure on leasehold improvement	5 years	1,693,800.00	338,760.00	1,016,280.00	677,520.00	2 years
Expenditure on public utility	5 years	3,112,221.58	584,890.44	1,786,299.13	1,325,922.45	1-3 years
Small machine computer system	3 years	2,848,000.00	632,888.88	632,888.88	2,215,111.12	2 years and 4 months
Expenditure on computer development	5 years	2,797,616.73	625,813.18	625,813.18	2,171,803.55	2 years
Installation of telephone	5 years	1,169,000.00	182,965.82	655,509.06	513,490.94	2 years
ERP system	5 years	4,821,159.92	781,810.60	781,810.60	4,039,349.32	2-5 years
Expenditure on development of electrical power	5 years	2,204,800.00	565,839.96	1,293,599.88	911,200.12	1.5-2 years
Expenditure on development of electrical power of new factory	5 years	800,000.00	159,996.00	479,988.00	320,012.00	2 years
Usage right of utilities	4 years	1,118,890.00	251,752.44	615,384.92	503,505.08	2 years
Revaluation surplus of H shares	5 years	6,196,963.49	1,203,592.56	3,811,477.72	2,385,485.77	1-2 years
GMP project improvement	5 years	4,426,817.44	885,363.60	2,874,008.85	1,552,808.59	3 years and 6 months
Others	5 years	811,803.92	162,360.76	630,942.28	180,861.64	1-2 years
		<u>50,064,110.97</u>	<u>10,098,243.81</u>	<u>21,594,344.70</u>	<u>28,469,766.27</u>	

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Short term loans

	1999	2000
Loan by credit	81,520,000.00	44,640,000.00
Pledged loans	290,780,000.00	250,880,000.00
Guaranteed loans	235,850,000.00	182,480,000.00
	<u>608,150,000.00</u>	<u>478,000,000.00</u>

There are no overdue loans within the closing loan balance

17. Accounts payable

1) Aging analysis on accounts payable

Aging	1999		2000	
	Balance	Percentage	Balance	Percentage
Within 1 year	428,815,082.48	91%	477,378,074.89	93%
1-2 years	16,641,213.85	3%	17,086,164.32	3%
2-3 years	6,976,016.12	1%	7,116,441.96	1%
Over 3 years	22,059,820.10	5%	15,145,546.43	3%
	<u>474,492,132.55</u>	<u>100%</u>	<u>516,726,227.60</u>	<u>100%</u>

2) Of the closing balance aforementioned, no current account is due to shareholders whose share holding is over 5% of total issued share of the Company.

18. Dividend payable

	2000	Reason for non settlement
State Shares	15,390,000.00	Proposed final dividend, to be period in 2001
Public shares in society	8,937,000.00	Proposed final dividend, to be paid in 2001
Overseas public shares	30,008.29	2000 Interim dividend not paid yet
Employee shares	5,073,088.87	Dividend of year 2000, to be paid in 2001
	<u>29,430,097.16</u>	

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Tax payable

	2000
Business tax	605,035.31
Value added tax	4,557,340.34
City construction tax	753,304.21
Income tax	28,770,559.74
Property tax	286,134.08
Withholding tax	67,207.95
Custom duty	-465,744.08
Others	945,815.68
	<u>35,519,653.23</u>

The policy of taxation mentioned in Note III. is implemented in the current reporting period.

20. Other current liability

	Calculation base	2000
Education surcharge	3% of VAT, Business tax and consumption tax	331,552.29
Flood prevention levy & others	0.18% of VAT, Business tax, consumption tax and Resource tax	2,739,432.12
Others		<u>166,373.81</u>
		<u>3,237,358.22</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21, Other payable

1) Aging analysis of other payable

Aging	1999		2000	
	Balance	Percentage	Balance	Percentage
Within 1 year	91,803,285.64	58%	139,827,243.37	59%
1-2 years	20,477,553.08	13%	33,989,368.60	15%
2-3 years	22,224,829.86	14%	15,304,722.88	7%
Over 3 years	24,041,895.24	15%	44,152,093.22	19%
	<u>158,547,563.82</u>	<u>100%</u>	<u>233,273,428.07</u>	<u>100%</u>

2) Break down of other payables closing balance

	2000
Current account due to external company	65,774,157.48
Housing subsidy payable to Guangzhou Pharmaceutical Group	62,029,905.67
Technology improvement	17,573,347.38
Administration charger and government levies	10,472,640.28
Housing fund	10,810,777.23
Rental	1,383,846.10
Staff education fund	6,614,494.20
Labour insurance	3,651,525.52
Contractor fee	625,617.17
Deposit	10,835,316.82
Labour union fund	1,150,235.03
Staff bonus and welfare fund	1,082,341.21
Interest	4,819,652.60
Advance from staff	3,019,937.67
Centralization fund	15,248,365.32
Others	14,181,268.39
	<u>229,273,428.07</u>

- 3) Among the other payable accounts, Guangzhou Pharmaceutical Group holds over 5% of the total share of the Company. The account amounts to Rmb 62,029,905.67. Please refer to Note 7 on related parties transactions below.

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Accrued expense

	1999	2000
Advertising	280,180.90	0.00
Consulting fee and audit fee	2,269,965.00	3,080,965.00
Interest on loan	563,739.40	737,725.93
Rental	858,994.67	233,883.10
Electricity and utilities	15,241.28	76,091.78
Others	246,975.72	510,456.52
	<u>4,235,096.97</u>	<u>4,639,122.33</u>

23. Long term liabilities due within 1 year

The balance of the long term liabilities due within 1 year is Rmb 34,000,000.00; are all denominated in Rmb and all are pledged.

24. Long term loans

Bank	Period	Year interest rate	2000	Terms
The first branch of Guangzhou ICBC	2000.07.28~2002.11.20	5.940%	5,000,000.00	Pledged
The first branch of Guangzhou ICBC	2000.07.28~2002.09.20	5.940%	5,000,000.00	Pledged
The first branch of Guangzhou ICBC	2000.07.28~2002.05.20	5.940%	5,000,000.00	Pledged
The second branch of Guangzhou ICBC	2000.02.25~2002.04.18	6.534%	10,000,000.00	Pledged
The second branch of Guangzhou ICBC	2000.02.25~2002.03.15	6.534%	10,000,000.00	Pledged
The second branch of Guangzhou ICBC	2000.03.06~2002.07.18	6.534%	10,000,000.00	Pledged
The second branch of Guangzhou ICBC	2000.02.29~2002.07.04	6.534%	5,000,000.00	Pledged
The second branch of Guangzhou ICBC	2000.03.02~2002.08.04	6.534%	5,000,000.00	Pledged
The second branch of Guangzhou ICBC	2000.02.09~2002.05.04	6.534%	5,000,000.00	Pledged
The second branch of Guangzhou ICBC	2000.02.25~2002.03.02	6.534%	5,000,000.00	Pledged
			<u>65,000,000.00</u>	

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Long term payables

Creditor	Nature	2000
Guangzhou Authority of state owned asset management	Dividend payable to state	3,601,287.27
Guangzhou Authority of state owned asset management	Dividend of state owned share	4,635,902.05
Housing fund		3,778,181.80
Others		2,104,427.82
		14,119,798.94

26. Housing fund

According to the documents, Caiqi [2000] 295 and Caiqi [2000] 878, issued by the Ministry of Finance, the closing balance of housing fund have been offset to the opening retained earnings.

This accounting treatment has caused the opening retained earnings to become negative 40,001,838.82. In accordance with the resolution passed in the 4th meeting of the 2nd term Board of Directors, the Company has transferred from Statutory public welfare fund, discretionary surplus reserve, statutory surplus reserve and capital reserve, 16,862,392.25, 17,587,994.51, 5,342,141.22 and 209,360.84 respectively to retained earnings.

27. Paid-in capital

		Opening balance	Addition in the period (+/-)				Sub-total	Closing balance
			Right issue	Bones shares	Conversion from reserves	Others		
I	Unlisted shares							
(1).	Promoter's shares	513,000,000.00	0.00	0.00	0.00	0.00	513,000,000.00	
	Including:							
	State-owned shares	513,000,000.00	0.00	0.00	0.00	0.00	513,000,000.00	
	Domestic legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	
	Oversea legal person shares	0.00	0.00	0.00	0.00	0.00	0.00	
	Others	0.00	0.00	0.00	0.00	0.00	0.00	
(2).	Subscribed legal person share	0.00	0.00	0.00	0.00	0.00	0.00	
(3).	Employee share	0.00	0.00	0.00	0.00	0.00	0.00	
(4).	Preference shares or others	0.00	0.00	0.00	0.00	0.00	0.00	
		0.00	0.00	0.00	0.00	0.00	0.00	
	Total unlisted shares	513,000,000.00	0.00	0.00	0.00	0.00	513,000,000.00	
II	Listed shares							
(1).	PRC listed domestic shares	0.00	0.00	0.00	0.00	0.00	0.00	
(2).	PRC listed foreign shares	0.00	0.00	0.00	0.00	0.00	0.00	
(3).	Oversea listed foreign shares	219,900,000.00	0.00	0.00	0.00	0.00	219,900,000.00	
(4).	Others	0.00	0.00	0.00	0.00	0.00	0.00	
	Total listed shares	219,900,000.00	0.00	0.00	0.00	0.00	219,900,000.00	
III	Total number of shares	732,900,000.00	0.00	0.00	0.00	0.00	732,900,000.00	

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

28. Capital reserve

	Opening balance	Additions during the period	Amortization during the period	Closing balance
Share premium	223,021,317.47	0.00	0.00	223,021,317.47
Provision for donation in the form of assets	1,621,716.80	0.00	0.00	1,621,716.80
Transfer from other capital surplus	19,887,759.34	0.00	2,320,729.00	17,567,030.34
Exchange gain on foreign currency capital	373,893.09	0.00	0.00	373,893.09
Transfer from tax refund	189,339,785.11	13,185,000.00	0.00	202,524,785.11
	<u>434,244,471.81</u>	<u>13,185,000.00</u>	<u>2,320,729.00</u>	<u>445,108,742.81</u>

29. Surplus reserve

	Opening balance	Addition in the period	Amortization in the period	Closing balance
Statutory surplus reverse	72,983,975.54	34,442,904.57	4,662,921.63	102,763,958.48
Statutory public welfare fund	52,726,720.87	34,442,804.68	18,958,914.62	68,210,610.93
Discretionary surplus reserve	49,741,315.42	0.00	31,613,409.96	18,127,905.46
Transfer from tax refund	4,972,960.34	532.73	0.00	4,973,493.07
	<u>180,424,972.17</u>	<u>68,886,241.98</u>	<u>55,235,246.21</u>	<u>194,075,967.94</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. Retained earning

- 1) Please refer to appendix III for details of retained earning.
- 2) Please refer to Note II; 21 for detailed policy of profit distribution.
- 3) According to resolution of the Board of Directors on 1 September, 2000, the interim retained earning will be shared by new and old shareholders.
- 4) The opening retained earnings of 2000 is Rmb-50,195,637.73 , which decreased by Rmb 18,402,753.61 compared with last year's Rmb 68,598,391.34. This is mainly due to opening retained earning being reversed by the closing debit balance of the housing fund, which is in accordance with the document Caiqi [2000] 295 "Notification about accounting treatment in reforming the housing system" from the Ministry of Finance.
- 5) According to the resolution passed in the 4th meeting of the 2nd term of Directors Meeting, the Company proposed a total dividend of Rmb0.05 per share, totalling Rmb38,985,000. Interim dividend for year 2000 were paid at a rate of Rmb0.02 per share, totalling Rmb14,658,000. At end of year 2000, proposed final dividend is Rmb0.03 per share. Based on the total number of shares after the new issue of Shares at 810,090,000 shares, the total final dividend is Rmb24,327,000.00. This final dividend is sourced from retained earnings at year end at Rmb11,475,000.00 and discretionary surplus reserve amounting to Rmb12,852,000.00.

31. Sales from principal operations

	2000	1999
(1) Manufacturing and selling	<u>1,295,155,090.44</u>	<u>1,199,736,530.78</u>
(2) Trading		
Wholesale	2,469,537,477.45	1,802,015,360.45
Retail	388,807,225.48	380,220,196.03
Import & export sales	<u>69,357,222.60</u>	<u>72,518,280.86</u>
	<u>2,927,701,925.53</u>	<u>2,254,753,837.34</u>
	<u><u>4,222,857,015.97</u></u>	<u><u>3,454,490,368.12</u></u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Cost of Sales from principal operations

	2000	1999
(1) Manufacturing and selling	576,266,627.49	625,168,080.66
(2) Trading		
Wholesale	2,260,895,027.23	1,601,976,400.16
Retail	302,765,096.79	295,668,460.25
Import & export sales	61,405,110.88	65,743,010.17
	<u>2,625,065,234.90</u>	<u>1,963,387,870.58</u>
	<u>3,201,331,862.39</u>	<u>2,588,555,951.24</u>

33. Sales tax & surcharge

	2000	1999
Business tax	1,101,683.27	717,243.92
City construction tax	12,878,601.34	12,304,497.10
Land appreciation tax	0.00	250,339.09
Education surcharge	5,759,828.62	5,025,918.57
Others	52,454.83	26,361.18
	<u>19,792,568.06</u>	<u>18,324,359.86</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

34. Profit from other operations

	2000	1999
(1) Income from other operations		
Sales of assets	27,755,070.17	30,310,581.08
Sales of material	8,694,816.17	7,335,578.48
Interest	2,654,398.59	4,872,759.64
Rental income	5,033,511.26	0.00
Income from conference	1,031,250.17	500,000.00
Storage	2,882,907.71	2,193,745.00
Sale of intangible assets	7,971.77	713,887.67
Income from advertising	975,694.48	9,520.00
Others	479,711.75	1,164,010.96
	<u>49,515,332.07</u>	<u>47,100,082.83</u>
(2) Other operating expenses		
Rental	4,295,856.77	4,138,194.39
Sales of material	7,609,913.89	6,601,224.98
Sales tax & surcharge	649,283.13	652,104.41
Storage	143,453.57	80,147.54
Others	377,162.04	123,277.94
	<u>13,075,669.40</u>	<u>11,594,949.26</u>
	<u><u>36,439,662.67</u></u>	<u><u>35,505,133.57</u></u>

35. Financial expense

	2000	1999
Net interest expense	26,641,411.46	37,454,789.04
Net exchange loss	522,162.50	491,157.76
Bank charges	751,852.08	657,077.00
Others	-1,898.40	-5,947.52
	<u>27,913,527.64</u>	<u>38,597,076.28</u>

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

36. Investment income

	2000	1999
Equity investment		
Cost method	3,754,186.30	1,106,800.91
Equity method	767,047.81	956,206.00
Debenture investment	126,653.70	429,247.96
	4,647,887.81	2,492,254.87
	4,647,887.81	2,492,254.87

37. Non-operating income

	2000	1999
Net profit from disposal of fixed assets	131,558.98	137,758.34
Gain on fixed assets counting	1,566.63	22,526.83
Sales of obsolete material	100,828.37	8,942.12
Fines	25,336.89	32,665.93
Other levies refund	0.00	1,020,046.39
MTR removal compensation	10,377,543.89	18,269,197.39
Creditors written off	4,318,507.78	800,929.06
Others	3,451,866.32	4,212,579.59
	18,407,208.86	24,504,645.65
	18,407,208.86	24,504,645.65

38. Non-operating expense

	2000	1999
Net loss on disposal of fixed assets	2,820,816.76	1,170,559.95
Loss on debt restructuring	0.00	114,704.88
Donation	67,750.00	432,176.00
Fines	695,201.53	564,771.07
Exceptional loss	130,071.46	199,084.40
Others	4,276,414.34	7,262,323.81
	7,990,254.09	9,743,620.11
	7,990,254.09	9,743,620.11

Notes to the Accounts

4 NOTES TO THE PRINCIPAL ITEMS ON THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Income tax

	2000	1999
Total profit	219,935,807.84	179,971,536.09
Total taxable income	<u>401,108,328.99</u>	<u>265,973,030.90</u>
Difference	<u>181,172,521.15</u>	<u>86,001,494.81</u>
Income tax	<u><u>62,725,426.49</u></u>	<u><u>41,853,028.03</u></u>

Taxable income is calculated based on total profit less non-deductible cost, expenses and other non-operating gains (losses) in accordance with “Temporary regulation of enterprises income tax in the People’s Republic of China”.

The taxation of the years increased by 49.87%. The main reasons are:

- (1) The total profits of the subsidiaries increased by 72,380,000, a 23.21% increase.
- (2) Pursuant to the document Guoshufa [2000] 84 issued by the state tax Bureau on 16 May 2000, portion of advertising expenses over 2% of the sales is not tax deductible and portion of promotional expenses over 0.05% of sales is not tax deductible. This taxation policy caused the increase of taxable income by 28,930,000 compared with last year.

40. Cash received relating to other operating activities

Item	Amount
Discount from suppliers	63,360,557.07
Advance from customer	22,399,976.31
Promotion of new product	10,427,483.13

41. Cash paid relating to other operating activities

Item	Amount
Administration expense	55,896,437.37
Selling expense	46,120,498.75
Sale discount	41,805,638.24
Advertising	34,416,884.22
Travelling and meeting expense	15,224,074.85
Supply fee	12,101,641.38
Process fee	6,694,237.58
Advance for business activities	5,888,938.16
Transportation expense	3,856,083.33
Entertainment expense	1,227,394.42

Notes to the Accounts

5 NOTES TO THE ACCOUNT OF THE COMPANY

(All amounts are stated in Rmb Yuan unless otherwise stated)

1. Other receivable

Ageing	1999			2000		
	Balance	%	Provision	Balance	%	Provision
Within 1 year	55,516,871.91	34%	0.00	94,770,586.57	39%	0.00
1 ~ 2 years	105,681,682.24	66%	0.00	53,504,040.73	22%	150,613.06
2 ~3 years	0.00	0%	0.00	92,480,525.64	39%	0.00
3 ~4 years	0.00	0%	0.00	0.00	0%	0.00
4 ~5 years	0.00	0%	0.00	0.00	0%	0.00
Over 5 years	0.00	0%	0.00	0.00	0%	0.00
	<u>161,198,554.15</u>	<u>100%</u>	<u>0.00</u>	<u>240,755,152.94</u>	<u>100%</u>	<u>150,613.06</u>

Including other receivable was an amount Rmb6,441,426.36 due from the Holding.

2. Long term investments

Name of investee	Original investment	% equity held	Increase (decrease) of the equity	Balance at the year end
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	72,422,318.70	84.11%	29,397,508.92	102,157,600.58
Kwang Chow First Chinese Medicine Factory	95,757,278.42	100%	75,329,378.21	170,129,268.76
Guanzhou Chen Li Ji Chinese Medicine Factory	84,210,759.25	100%	65,543,569.86	150,176,928.85
Guangzhou Zhong Sheng Pharmaceutical Factory	10,756,930.75	100%	-23,656,347.78	-12,946,421.28
Guangzhou Qi Xing Pharmaceutical Factory	126,775,482.62	100%	9,272,246.42	136,554,040.01
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	78,489,814.94	83.90%	-8,039,385.77	70,476,497.93
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	85,298,132.51	81.53%	8,989,114.17	94,287,246.68
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	53,635,124.44	87.07%	5,629,952.17	59,270,392.35
Guangzhou Pharmaceutical Corporation	133,149,915.75	100%	74,484,595.53	208,289,601.09
Guanzhou Chinese Medicine Corporation	40,159,983.83	100%	19,604,419.55	59,982,179.16
Guangzhou Pharmaceutical Import & Export Corporation	8,451,925.49	100%	69,162.78	8,451,220.02

Notes to the Accounts

5 NOTES TO THE ACCOUNT OF THE COMPANY (continued)

2. Long term investments (continued)

Name of investee	Original investment amount	% equity held	Increase (decrease) of the equity	Balance at the year end
Jihua Pharmaceutical Apparatus Company Limited	500,000.00	30%	0.00	500,000.00
Guangzhou Guangjing Chinese patent medicine technology innovation center company limited	700,000.00	70%	-26,243.20	673,756.80
Nanhai Nanfang Packing Company Limited	30,000,000.00	21.42%	0.00	30,000,000.00
Total	<u>820,307,666.70</u>		<u>256,597,970.86</u>	<u>1,078,002,310.95</u>

3. Investment income

	2000	1999
Cost method	3,013,835.00	1,868,200.00
At equity method	<u>149,152,207.72</u>	<u>131,105,636.44</u>
	<u>152,166,042.72</u>	<u>132,973,836.44</u>

4. Income tax

Difference between the accounting profit and the taxable profit for each period is as follows:

	2000	1999
Accounting profit	146,234,182.77	128,663,316.58
Taxable profit	-1,693,408.43	-944,202.96
Difference	-147,927,591.20	-129,607,519.54
Taxation	0.00	0.00

The accounting profit is less than taxable profit as the Company's profit is calculated using the equity method of accounting for investment income from its subsidiaries. Since the investment income is calculated based on the profit after tax, it is deducted from taxable profit. The Company does not have a taxable profit for the year after accounting for the deduction of investment income from its subsidiaries and the accumulated loss from 1999.

Notes to the Accounts

6 SEGMENT INFORMATION

Unit: Rmb '000

Segments	Sales		Cost of sales		Gross profit	
	1999	2000	1999	2000	1999	2000
Manufacturing	1,199,737	1,295,156	625,168	576,267	574,569	718,887
Trading						
Wholesale	1,802,015	2,469,537	1,601,976	2,260,895	200,039	208,642
Retail	380,220	388,807	295,669	302,765	84,551	86,042
Import & Export	72,518	69,357	65,743	61,405	6,775	7,952
	<u>3,454,490</u>	<u>4,222,857</u>	<u>2,588,556</u>	<u>3,201,332</u>	<u>865,934</u>	<u>1,021,523</u>

7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related parties with substantial control

Name	Registered address	Principle business	Relationship with the Company	Economic nature and type	Statutory representative
Guangzhou Pharmaceutical Holdings Company Limited	45 Shamian North Guangzhou	Production and sales	Holding	company with limited liabilities	Cai Zhixiang
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	252 Renmin Central Road Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Li Xinghua
Kwang Chow First Chinese Medicine Factory	77 Shanmulan Road Guangzhou	Production and sales	Subsidiary	controlled by the State	Mai Qijie
Guangzhou Chen Li Ji Chinese Medicine Factory	1688 Guangzhou Dadao Guangzhou	Production and sales	Subsidiary	controlled by the State	Li Guoju
Guangzhou Zhong Sheng Pharmaceutical Factory	32 Changhuaxin Street Duobao Road, Guangzhou	Production and sales	Subsidiary	controlled by the State	Mai Qijie
Guangzhou Qi Xing Pharmaceutical Factory	33 Cigang North Street, Xingang Central Road, Guangzhou	Production and sales	Subsidiary	controlled by the State	Zhu Bohua
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	179 Renmin South Road, Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Huang Haitao
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	618~620 Jiefang North Road, Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Liao Jingguang

Notes to the Accounts

7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS (continued)

1. Related parties with substantial control (continued)

Name	Registered address	Principle business	Relationship with the Company	Economic nature and type	Statutory representative
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	Brige side, Jiang Villege, Baiyun District, Guangzhou	Production and sales	Subsidiary	joint stock company with limited liabilities	Chen Xiangzhi
Guangzhou Pharmaceutical Corporation	97 Datong Road, Guangzhou	Wholesale and retail	Subsidiary	controlled by the State	Feng Zhansheng
Guangzhou Chinese Medicine Corporation	140 Guangfu South Road, Guangzhou	Wholesale and retail	Subsidiary	controlled by the State	Shu Dezhan
Guangzhou Pharmaceutical Import & Export Corporation	59 Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	controlled by the State	Tu Kejin

2. Changes in the Registered capital of related parties with substantial control

Unit: Rmb 0'000

Name	1999	Increase during the year	Decrease during the year	2000
Guangzhou Pharmaceutical Holdings Company Limited	100,770	0	0	100,770
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	5,350	0	0	5,350
Kwang Chow First Chinese Medicine Factory	1,167	0	0	1,167
Guangzhou Chen Li Ji Chinese Medicine Factory	752	0	0	752
Guangzhou Zhong Sheng Pharmaceutical Factory	499	0	0	499
Guangzhou Qi Xing Pharmaceutical Factory	560	0	0	560
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	6,210	0	0	6,210
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	4,332	0	0	4,332
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	6,189	0	0	6,189
Guangzhou Pharmaceutical Corporation	835	0	0	835
Guangzhou Chinese Medicine Corporation	882	0	0	882
Guangzhou Pharmaceutical Import & Export Corporation	257	0	0	257

Notes to the Accounts

7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS (continued)

3. Change in shareholding or equity interest held by related parties with substantial control

Unit: Rmb 0'000

Name	1999	%	Increase		Decrease		2000	%
			during the year	%	during the year	%		
Guangzhou Pharmaceutical Holdings Company Limited	51,300	70	0	0	0	0	51,300	70
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	4,500	84.11	0	0	0	0	4,500	84.11
Kwang Chow First Chinese Medicine Factory	1,167	100	0	0	0	0	1,167	100
Guangzhou Chen Li Ji Chinese Medicine Factory	752	100	0	0	0	0	752	100
Guangzhou Zhong Sheng Pharmaceutical Factory	499	100	0	0	0	0	499	100
Guangzhou Qi Xing Pharmaceutical Factory	560	100	0	0	0	0	560	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	5,210	83.90	0	0	0	0	5,210	83.90
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	3,532	81.53	0	0	0	0	3,532	81.53
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	5,389	87.07	0	0	0	0	5,389	87.07
Guangzhou Pharmaceutical Corporation	835	100	0	0	0	0	835	100
Guangzhou Chinese Medicine Corporation	882	100	0	0	0	0	882	100
Guangzhou Pharmaceutical Import & Export Corporation	257	100	0	0	0	0	257	100

4. Related party transactions

(i) Relationship of related parties with no substantial control

Name	Relationship to the Company
Guangzhou Tianxi Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Qiaoguang Pharmaceutical Factory	Fellow subsidiary
Guangzhou Guanghua Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Mingxing Pharmaceutical Factory	Fellow subsidiary
Guangdong Pharmaceutical Factory	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Hejigong Factory	Fellow subsidiary
Guangzhou Sanitation Production Factory	Fellow subsidiary
Guangzhou Pharmaceutical Factory	Fellow subsidiary
Guangzhou No.10 Pharmaceutical Factory	Fellow subsidiary
Guangzhou Pharmaceutical Exploration Company	Fellow subsidiary
Guangzhou Zhongfu Pharmaceutical Company Limited	Joint venture
Guangdong Xinghua Health Drink Co., Ltd.	Subsidiary
Guangzhou Guangjing Chinese Patent Medicine Innovation Centre Company Limited	Subsidiary
Baoliang Development Company Limited	Fellow subsidiary

Notes to the Accounts

7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS (continued)

4. Related party transactions (continued)

(ii) Purchase of goods

Name	Unit: Rmb '000	
	2000	1999
Guangzhou Tianxi Pharmaceutical Company Limited	5,697	5,489
Guangzhou Qiaoguang Pharmaceutical Factory	4,112	2,576
Guangzhou Guanghua Pharmaceutical Company Limited	15,372	11,009
Guangzhou Mingxing Pharmaceutical Factory	7,047	5,723
Guangdong Pharmaceutical Factory	9,081	6,887
Guangzhou Pharmaceutical Goods Supplying Company	3,040	6,718
Guangzhou Hejigong Factory	1,378	936
Guangzhou Sanitation Production Factory	668	520
Guangzhou Pharmaceutical Factory	1,249	0
Guangzhou Pharmaceutical Economic Development Company	0	295
Guangzhou No.10 Pharmaceutical Factory	316	811
	47,960	40,964

The above purchases are all based on the price approved by the State or using the method in accordance with the regulation by the State.

(iii) Sale of goods

Name	Unit: Rmb '000	
	2000	1999
Guangzhou Tianxi Pharmaceutical Company Limited	13,557	13,979
Guangzhou Pharmaceutical Economic Development Company	0	76
Guangzhou Qiaoguang Pharmaceutical Factory	27,995	4,159
Guangzhou Guanghua Pharmaceutical Company Limited	444	0
Guangdong Pharmaceutical Factory	1,535	1,457
Guangzhou Zhongfu Medical Company Limited	2,051	0
Guangzhou Pharmaceutical Goods Supplying Company	4,864	0
Guangzhou Hejigong Factory	78	324
	50,524	19,995

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

Notes to the Accounts

7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS (continued)

4. Related party transactions (continued)

(iv) Receivables and payables

	1999	2000
		<i>Unit: Rmb '000</i>
Receivables:		
Guangzhou Guanghua Pharmaceutical Company Limited	0	121
Guangzhou Zhongfu Medical Company Limited	97	0
Guangzhou Xinhua Health Drinks Company Limited	289	0
Guangzhou Hejigong Factory	0	5
Guangzhou Tianxi Pharmaceutical Company Limited	3,115	2,627
Guangzhou Qiaoguang Pharmaceutical Factory	3,116	3,813
Guangdong Pharmaceutical Factory	81	165
	1999	2000
Payables:		
Guangzhou Qiaoguang Pharmaceutical Factory	0	114
Guangzhou Mingxing Pharmaceutical Factory	119	316
Guangzhou Hejigong Factory	5	251
Guangzhou Tianxi Pharmaceutical Company Limited	217	426
Guangzhou Pharmaceutical Goods and Supply Company	98	3
Guangdong Pharmaceutical Factory	49	157
Guangzhou Guanghua Pharmaceutical Company Limited	109	158
Guangdong No.10 Pharmaceutical Factory	7	16
Other receivable:		
Guangzhou Pharmaceutical Holdings Company Limited	1,076	2,500
Guangzhou Xinhua Health Drinks Company Limited	3,800	3,800
Guangzhou Zhongfu Medical Company Limited	0	13
Guangzhou Guangjing Chinese Patent Medicine Innovation Center Co., Ltd.	0	2,000
Hong Kong Baoliang Development Company Limited	1,219	1,207
Other payables:		
Guangzhou Pharmaceutical Holdings Company Limited	62,030	62,030

Notes to the Accounts

7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(continued)*

5. Provision or receipt of services

	Note	2000	Unit: Rmb '000 1999
Service fee on staff quarters	[1]	1,938	3,303
Welfare facilities	[2]	404	398
		<u>2,342</u>	<u>3,701</u>

Note[1]

Pursuant to the Accommodation Service Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Company Limited (the "GZPHL") on 1 September 1997 and supplemented by a notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.

Note[2]

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

6. Rental

Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three years at a fixed annual rent (and is subject to the adjustment of standard rent as prescribed from time to time by the Guangzhou Real Estate Administration Bureau), plus utilities and other outgoings which are payable based on the actual consumption. The Company shall pay such rental charges of Rmb2,719,000 for the year (1999: Rmb2,422,000)

Notes to the Accounts

7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS (continued)

7. Guarantee

The Company has provided guarantees to related parties for its bank loans as follows:

Name	1999 Rmb'000	2000 Rmb'000
Guangzhou Pharmaceutical Trading Center	16,000	0

8. License fee

Pursuant to the Trademark License Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay license fees for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries. The Trademark License Agreement will expire on 1 September 2007. The Company shall pay the above License fee of Rmb4,494,000 for the year. (1999: Rmb3,495,800).

9. Prepaid rental

Pursuant to the Premises Agreement entered into by the Company and GZPHL on 28 August 1998, GZPHL agreed to grant to the Company the right to use certain units of the new office building it had built. The rental payable by the Company will be determined by reference to a 38% discount on the market rental rate at the time the formal tenancy agreement is signed. As GZPHL requires funds for constructing the new office building, the Company made an advance rental payment of Rmb6,000,000 to GZPHL during the year. The advance rental payment shall be used by GZPHL exclusively for the construction of the new office building and shall offset the rental for the premises payable to GZPHL by the Company when it is due. The lease term is expected to be not less than 10 years or until the advance rental payment is fully utilized, whichever is longer.

10. Staff quarter reform cost

Pursuant to the Accommodation Services Agreement, GZPHL has agreed, upon request of the Company and in accordance with the prevailing Housing Reform Policy applicable in the Guangzhou Municipality, to sell staff quarters to the employees of the Group at a preferential price. For each such sale the Company agreed to pay GZPHL, within twelve months from completion of the sale, the staff quarters reform cost which represents the difference between the preferential price and the cost (net of accumulated depreciation) paid by GZPHL for building or acquiring such staff quarters. Up to the year end, the Company shall pay the Staff quarter reform cost to GZPHL amounting to Rmb62,030,000 (1999: Rmb62,030,000).

Notes to the Accounts

8 CONTINGENT EVENTS

Up to 31 December, 2000, There are no material contingent events which should be disclosed.

9 COMMITMENTS

Up to 31 December, 2000, the Company has capital commitment of Rmb52,153,000 (1999: 54,879,000) and operating lease commitment of 13,720,000 (1999: 18,271,000).

10 NON-ADJUSTING EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

- (1) Upon the approval from China Securities Regulatory Committee and Shareholders' meeting, the Company issued 78,000,000 shares of A shares. The net proceeds from the issue was 737,799,000. Upon the approval from Shanghai Stock Exchange, the A share of the company was listed on in the Shanghai Stock Exchange 6 February 2001.
- (2) Based on the resolution passed in the 3rd meeting of the 2nd term of Board of Directors on 21 February 2001, Kwang Chow First Chinese Medicine Factory has taken up the operation of Guangzhou Zhong Sheng Pharmaceutical Factory.

11 DEBT RESTRUCTURING

Up to 31 December, 2000, the Company has no debt restructuring.

12 OTHER MATERIAL EVENTS

- (1) Pursuant to a document CaiShui [2000] 99 issued jointly by the Ministry of Finance and the State Tax Bureau on 13 October 2000. The income tax refund incentive granted by the local authorities of refunding the 15% out of the 33% tax rate, will be valid until 31 December 2001.

The Finance Department of the Guangdong Province issued a document YueCaiFa [2000] 76 on 9 November 2000, stipulated that listed Companies in Guangdong province shall be taxed at 33% according to the statutory tax rate. The portion over the 15% (18%) shall be refunded to the Company from the Finance Department in order of administration relationship. This policy will be effective until 31 December 2001. From 1 January 2002, unless there are any other legal and administrative regulations, enterprises income tax shall be levied on the unified tax rate.

As mentioned above (see Note 3 TAXATION AND OTHER ADDITIONAL TAX), the preferential treatment of tax rate at 15% was expired on 31 December 2000. The Company has applied to the Municipal Government of Guangzhou City for the extension of this preferential treatment in 2001 the above mentioned change in taxation policy will affect the net profit of the Company during the relevant period.

- (2) With respect to the document Suifu [2000] 18] issued by the Guangzhou Municipal Government on 18 May 2000 concerning the one-time cash accommodation allowance to (i) those employees to whom the Company has not allocated staff quarters and (ii) those aged employees whose allocated staff quarters do not meet the required standard, the Directors consider that the said document is not legally binding on the Company. In 2001, the Group will formulate their own policy of cash accommodation allowance to employees based on the Company's situation.

Difference Between the Accounts of the Group and the Company prepared in accordance with the PRC accounting rules and regulations and HK GAAP

Effect on the accounts in respect of differences between the PRC accounting rules and regulations and HK GAAP is as follows:

	Group		Company	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
Shareholders' funds under the PRC Accounting Rules and Regulations	1,373,104	1,365,972	1,373,104	1,365,972
Adjustments:				
Provision for bad debts	(30,121)	(18,623)	—	—
Deferred expenditures capitalised	89,909	(4,110)	2,187	—
Difference in fixed assets revaluation	138,733	140,177	—	—
Overprovision of research and development cost	17,463	5,938	—	—
Difference in minority interests	(14,598)	(11,129)	—	—
Reversal of share of net assets of subsidiaries	—	—	(39,531)	(39,202)
Shareholders' funds under HK GAAP	<u>1,574,490</u>	<u>1,478,225</u>	<u>1,335,760</u>	<u>1,326,770</u>
Net profit under PRC Accounting Rules and Regulations	146,234	128,663	146,234	128,663
Adjustments:				
Amortisation of deferred expenditures capitalised	(10,448)	(2,650)	(243)	—
Additional depreciation on revalued fixed assets	(1,444)	—	—	—
Reversal of overprovided research and development cost	11,525	—	—	—
Difference in minority interests	1,400	(1,771)	—	—
Reversal of share of results of subsidiaries	—	—	(98,016)	(46,174)
Government subsidies recognised as income	13,185	14,718	—	—
Inventories written off	(17,255)	—	—	—
Removal compensation recognised in prior years	(7,947)	(8,790)	—	—
Others	—	(1,482)	—	—
Net profit for the year under HK GAAP	<u>135,250</u>	<u>128,688</u>	<u>47,975</u>	<u>82,489</u>