

# AUDITOR'S REPORT

*(English version for reference only)*

Our reference: (2003) YC 439

Date: March 21, 2003

## To the shareholders of Guangzhou Pharmaceutical Company Limited

We have accepted the appointment to audit the Company's balance sheet as at 31 December 2002, its income statement, profit appropriation statement 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 2002, the Group's consolidated income statement, consolidated profit appropriation statement 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. Our responsibility is to express an audit opinion on these financial statements. Our audit was conducted in accordance with Chinese Independent Auditing Standards and, accordingly, included a test of the accounting records and such other audit procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly, in all material respects, the financial position of the Group and the Company as at 31 December 2002 and their operating results and cash flows of the Group and the Company for the year then ended in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises. 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 Certified Public Accountants Co., Ltd.

Chinese Certified Public Accountant

**Huang Weicheng**  
**Zhang Ning**

# CONSOLIDATED BALANCE SHEET

As at 31 December 2002

Form 1-1  
Monetary Unit: RMB Yuan

	Note	31 December 2002	31 December 2001
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash	6-1	1,019,903,178.95	893,692,642.58
Short-term investments	6-2	61,194,385.90	67,988,074.44
Notes receivable	6-3	180,000.00	46,710.00
Dividends receivable	6-4	5,474,684.92	6,080,075.49
Interests receivable		—	—
Accounts receivable	6-5	716,482,532.62	547,182,576.57
Other receivables	6-6	122,975,499.77	136,366,773.61
Advance to suppliers	6-7	80,700,451.50	41,166,801.83
Subsidies receivable	6-8	10,064,712.63	5,673,006.90
Inventories	6-9	848,519,074.31	833,327,684.61
Prepaid expenses	6-10	81,727,619.19	72,498,655.55
Long-term debentures investments due within 1 year		—	—
Other current assets		—	—
<b>Total current Assets</b>		<b>2,947,222,139.79</b>	<b>2,604,023,001.58</b>
<b>Long-term investments:</b>			
Long-term equity investments	6-11	86,789,969.55	81,085,615.01
Long-term investments investments		—	—
<b>Total long-term investments</b>		<b>86,789,969.55</b>	<b>81,085,615.01</b>
<b>Fixed assets:</b>			
Fixed assets-cost	6-12	1,247,479,589.50	1,121,946,619.83
Less: Accumulated depreciation	6-12	442,207,260.76	387,682,106.69
Fixed assets-net value	6-12	805,272,328.74	734,264,513.14
Less: Provision for fixed assets	6-12	—	—
Net fixed assets		29,564,343.45	24,753,795.66
Net of fixed assets		775,707,985.29	709,510,717.48
Construction supplies		—	—
Construction in progress	6-13	236,616,437.79	174,211,477.32
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>1,012,324,423.08</b>	<b>883,722,194.80</b>
<b>Intangible assets &amp; other assets:</b>			
Intangible assets	6-14	93,768,566.32	102,137,518.11
Long-term deferred expenses	6-15	33,089,392.45	31,145,005.93
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>126,857,958.77</b>	<b>133,282,524.04</b>
<b>Deferred taxes:</b>			
Deferred tax debits		—	—
<b>TOTAL ASSETS</b>		<b>4,173,194,491.19</b>	<b>3,702,113,335.43</b>

# CONSOLIDATED BALANCE SHEET

As at 31 December 2002

Form 1-2  
Monetary Unit: RMB Yuan

	Note	31 December 2002	31 December 2001
<b>Current liabilities:</b>			
Short-term loans	6-16	555,340,000.00	387,680,000.00
Notes payable	6-17	78,178,584.40	682,237.50
Accounts payable	6-18	580,755,642.12	558,201,710.52
Advance from customers	6-19	46,266,805.26	40,126,980.26
Accrued payroll		81,003,162.42	78,160,241.50
Payable welfare	6-20	57,057,212.15	42,505,336.32
Dividends payable	6-21	49,124,722.36	49,198,495.25
Taxes payable	6-22	48,773,628.89	28,914,107.23
Other liability	6-23	3,954,085.03	3,443,865.85
Other payables	6-24	124,069,695.90	149,781,248.00
Accrued expenses	6-25	4,625,106.82	4,553,878.05
Estimated liability		—	—
Long-term liabilities due within 1 year		—	45,000,000.00
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>1,629,148,645.35</b>	<b>1,388,248,100.48</b>
<b>Long-term liabilities:</b>			
Long-term loans	6-26	89,680,000.00	10,000,000.00
Bonds payable		—	—
Long-term payables	6-27	3,619,897.61	8,854,221.43
Special obligation	6-28	22,893,288.18	1,600,000.00
Other long-term liabilities		5,000,000.00	5,000,000.00
<b>Total long-term liabilities</b>		<b>121,193,185.79</b>	<b>25,454,221.43</b>
<b>Deferred taxes:</b>			
Deferred tax credits		—	—
<b>Total liabilities</b>		<b>1,750,341,831.14</b>	<b>1,413,702,321.91</b>
Minority shareholders' interests		135,923,981.38	115,494,935.97
<b>Shareholders' equity :</b>			
Share capital	6-29	810,900,000.00	810,900,000.00
Less: investment returned		—	—
Net share capital		810,900,000.00	810,900,000.00
Capital surplus	6-30	1,114,334,224.64	1,109,075,604.20
Reserved fund	6-31	336,429,845.16	251,928,845.40
Including: public welfare fund	6-31	109,728,912.38	82,925,402.32
Retained earnings	6-32	25,264,608.87	1,011,627.95
<b>Total Shareholders' equity</b>		<b>2,286,928,678.67</b>	<b>2,172,916,077.55</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,173,194,491.19</b>	<b>3,702,113,335.43</b>

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2002

Form 2-1  
Monetary Unit: RMB Yuan

Item	Note	2002	2001
<b>I. Sales</b>	6-33	<b>5,943,823,330.51</b>	5,334,028,710.18
Less: Cost of sales	6-34	<b>4,630,442,992.22</b>	4,163,902,618.51
Sales tax and levies	6-35	<b>23,971,060.12</b>	22,101,346.38
<b>II. Profit from principal operations</b>		<b>1,289,409,278.17</b>	1,148,024,745.29
Add: Profit from other operations	6-36	<b>31,799,024.38</b>	36,060,658.31
Less: Operating expenses		<b>418,080,004.45</b>	392,784,996.09
General and		<b>557,186,117.00</b>	522,102,842.79
Administrative expenses			
Financial expenses	6-37	<b>15,329,165.53</b>	7,157,170.38
<b>III. Operating profit</b>		<b>330,613,015.57</b>	262,040,394.34
Add: Investment income	6-38	<b>(16,898,852.55)</b>	(505,681.27)
Subsidies income	6-39	<b>314,068.00</b>	3,511,998.57
Non-operating income	6-40	<b>2,858,663.60</b>	6,524,440.99
Less: Non-operating expenses	6-41	<b>29,380,807.14</b>	11,490,010.07
<b>IV. Total profit</b>		<b>287,506,087.48</b>	260,081,142.56
Less: Income tax		<b>113,122,444.16</b>	103,209,535.64
Less: Loss and gain of minority shareholders		<b>15,905,895.38</b>	10,737,766.32
<b>V. Net profit</b>		<b>158,477,747.94</b>	146,133,840.60

## Supplemental information:

No.	Item	2002	2001
1.	Revenue from sale or disposal of department or invested company	—	595,612.06
2.	Loss incurred from natural disaster	—	—
3.	Total profit increased/(decreased) due to accounting policy a alteration	—	—
4.	Total profit increased/(decreased) due to accounting estimation a alteration	—	—
5.	Loss from debts reconstruction	—	—
6.	Others	—	—

# SUPPLEMENTARY CONSOLIDATED PROFIT APPROPRIATION STATEMENT

For the year ended 31 December 2002

Form 2-2

Monetary Unit: Renminbi Yuan

Profit for the period	2002				2001			
	Return on net assets		Earnings per share		Return on net assets		Earning per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	56.38%	57.25%	1.59	1.59	52.83%	55.30%	1.42	1.57
Profit from operations	14.46%	14.68%	0.41	0.41	12.06%	12.62%	0.32	0.36
Net profit	6.93%	7.04%	0.20	0.20	6.73%	7.04%	0.18	0.20
Net profit after deduction of exceptional items	7.10%	7.20%	0.20	0.20	6.79%	7.11%	0.18	0.20

# CONSOLIDATED PROFIT APPROPRIATION STATEMENT

For the year ended 31 December 2002

Form 3  
Monetary Unit: RMB Yuan

Item	Note	2002	2001
<b>1. Net profit</b>		<b>158,477,747.94</b>	146,133,840.60
Add: Retained earnings brought forwards		<b>1,011,627.95</b>	(26,958,138.43)
Add: Transfer from others		<b>3,972,143.34</b>	—
<b>2. Profit distributable</b>		<b>163,461,519.23</b>	119,175,702.17
Less: Transfer to statutory surplus reserves	6-31	<b>34,419,291.99</b>	26,095,588.94
Less: Transfer to public welfare fund	6-31	<b>26,812,654.95</b>	18,589,803.77
Less: Transfer to staff bonus and welfare fund		<b>2,144,451.47</b>	1,334,327.55
Less: Transfer to reserve fund		<b>804,169.31</b>	667,163.78
Less: Enterprise expansion fund		<b>804,169.31</b>	667,163.78
Less: Profit returned to investment		—	—
<b>3. Profit distributable to shareholders</b>		<b>98,476,782.20</b>	71,821,654.35
Less: Dividend for preferred shares		—	—
Less: Transfer to discretionary surplus reserves	6-31	<b>24,558,173.33</b>	22,156,026.40
Less: Dividend for ordinary shares	6-32	<b>48,654,000.00</b>	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital		—	—
<b>4. Retained earnings</b>		<b><u>25,264,608.87</u></b>	<b><u>1,011,627.95</u></b>

# CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 December 2002

Form 4-1  
Monetary Unit: RMB Yuan

Item	Note	Amount
<b>I. Cash flows from operating activities:</b>		
Cash received from sales of goods or rendering of services		6,836,654,545.10
Refund of tax and levy		23,950,106.62
Other cash received relating to operating activities	6-42	171,486,216.26
<b>Subtotal of cash inflows</b>		<b>7,032,090,867.98</b>
Cash paid for goods or services		5,447,547,606.85
Cash paid to or on behalf of employees		437,112,281.08
Taxes paid		431,020,632.94
Other cash paid in relation to operating activities	6-43	547,396,057.19
<b>Subtotal of cash outflows</b>		<b>6,863,076,578.06</b>
<b>Net cash flows from operating activities</b>		<b>169,014,289.92</b>
<b>II. Cash flows from investing activities:</b>		
Cash received from return of investments		84,601,477.24
Cash received from investment income		10,965,522.69
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		7,665,519.93
Other cash received from investing activities		2,220,526.10
<b>Subtotal of cash inflows</b>		<b>105,453,045.96</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		173,698,559.80
Cash paid to acquire investments		99,603,800.00
Other cash paid in relation to investing activities		—
<b>Subtotal of cash outflows</b>		<b>273,302,359.80</b>
<b>Net cash flows from investing activities</b>		<b>(167,849,313.84)</b>
<b>III. Cash flows from financing activities</b>		
Proceeds from absorbing investments		—
Cash received from investment from minor shareholders by subsidiaries		940,000.00
Proceeds from borrowings		787,340,000.00
Other proceeds relating to financing activities		945,646.75
<b>Subtotal of cash inflows</b>		<b>789,225,646.75</b>
Cash repayments of amounts borrowed		585,000,000.00
Cash payments for distribution of dividends, profits or interest expenses		75,599,561.31
Cash payments for dividends of minor shareholders by subsidiaries		3,511,469.89
Other cash payments relating to financing activities		113,085.74
<b>Subtotal of cash outflows</b>		<b>664,224,116.94</b>
<b>Net cash flows from financing activities</b>		<b>125,001,529.81</b>
<b>IV. Effect of foreign exchange rate changes on cash</b>		<b>44,030.48</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>126,210,536.37</b>

# CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 December 2002

Form 4-2  
Monetary Unit: RMB Yuan

## Supplemental Information

Item	Amount
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>	
Net profit	158,477,747.94
Loss & gain of minority shareholders	15,905,895.38
Add: Provision for value impairment of assets	8,209,190.93
Depreciation of fixed assets	79,526,037.16
Amortization of intangible assets	20,102,638.91
Amortization of long-term prepaid expenses	21,487,381.52
Decrease in prepaid expenses (less: increase)	(9,228,963.64)
Increase in accrued expenses (less: decrease)	71,228.77
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	171,994.44
Losses on scrapping of fixed assets	3,392,710.26
Financial expenses	27,390,219.39
Losses on investments (less: gains)	(16,898,852.55)
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	(15,191,389.70)
Decrease in operating receivables (less: increase)	(244,802,016.08)
Increase in operating payables (less: decrease)	120,400,467.21
Others	—
Net cash flows from operating activities	<u>169,014,289.92</u>
<b>2. Investing and financing activities that do not involve in cash receipts or payments:</b>	
Liabilities transferred into capital	—
Convertible bonds due within 1 year	—
Fixed assets under financing lease	—
<b>3. Net increase in cash and cash equivalents:</b>	
Cash at the end of the period	1,019,903,178.95
Less: Cash at the beginning of the period	<u>893,692,642.58</u>
Add: Cash equivalents at the end of the period	—
Less: Cash equivalents at the beginning of the period	—
<b>Net increase in cash and cash equivalents</b>	<u>126,210,536.37</u>



# BALANCE SHEET

As At 31 December 2002

Form 5-1

Monetary Unit: RMB Yuan

ASSETS	Notes	31 December 2002	31 December 2001
<b>Current assets</b>			
Cash		204,624,119.72	333,582,586.83
Short-term investments		61,194,385.90	3,051,935.55
Notes receivable		—	—
Dividends receivable		5,106,895.00	20,710,385.91
Interest receivable		—	—
Accounts receivable		0.00	0.00
Other receivables	7-1	285,792,292.21	340,009,236.97
Prepayments		—	—
Subsidy receivable		—	—
Inventories		0.00	0.00
Prepaid expenses		0.00	0.00
Long-term debentures		—	—
investments due within 1 year		—	—
Others		—	—
<b>Total current Assets</b>		<b>556,717,692.83</b>	<b>697,354,145.26</b>
<b>Long-term investments:</b>			
Long-term equity investment	7-2	1,772,278,585.65	1,511,555,585.50
Long-term investments investment		—	—
<b>Total long-term investment</b>		<b>1,772,278,585.65</b>	<b>1,511,555,585.50</b>
<b>Fixed assets:</b>			
Fixed assets-cost		31,605,410.76	30,074,896.76
Less: Accumulated depreciation		7,279,372.15	4,833,509.98
Fixed assets-net value		24,326,038.61	25,241,386.78
Less: Provision for fixed assets		7,109,752.25	—
Net of fixed assets		17,216,286.36	25,241,386.78
Construction materials		—	—
Construction in progress		4,330,352.17	—
Disposal of fixed assets		—	—
<b>Total fixed assets</b>		<b>21,546,638.53</b>	<b>25,241,386.78</b>
<b>Intangible assets &amp; other assets:</b>			
Intangible assets		—	—
Long-term deferred expenses		2,404,510.41	2,209,641.77
Other long-term assets		—	—
<b>Total intangible assets &amp; other assets</b>		<b>2,404,510.41</b>	<b>2,209,641.77</b>
<b>Deferred tax</b>			
Deferred tax debits		—	—
<b>TOTAL ASSETS</b>		<b>2,352,947,427.42</b>	<b>2,236,360,759.31</b>

# BALANCE SHEET

As At 31 December 2002

Form 5-2  
Monetary Unit: RMB Yuan

LIABILITIES & OWNERS' EQUITY	31 December 2002	31 December 2001
<b>Current liabilities:</b>		
Short-term loans	—	—
Notes payable	—	—
Accounts payable	—	—
Advances from customers	—	—
Accrued payroll	2,629,148.66	2,629,148.66
Welfare payable	2,568,305.87	2,098,445.50
Dividends payable	48,676,917.14	48,676,906.39
Tax payable	408,494.06	316,535.72
Other liabilities	9,880.96	11,116.36
Other payables	11,947,614.68	6,230,507.00
Accrued expenses	3,250,000.00	2,300,000.00
Estimated liabilities	—	—
Long-term liabilities due within 1 year	—	—
<b>Other current liabilities</b>	—	—
<b>Total current liabilities</b>	<b>69,490,361.37</b>	<b>62,262,659.63</b>
<b>Long-term liabilities:</b>		
Long-term loan	—	—
Bonds payable	—	—
Long-term payable	—	—
Special payables	—	—
Other long-term liabilities	—	—
<b>Total long-term liabilities</b>	<b>—</b>	<b>—</b>
<b>Deferred tax</b>		
Deferred tax credits	—	—
<b>Total liabilities</b>	<b>69,490,361.37</b>	<b>62,262,659.63</b>
<b>Shareholders' equity :</b>		
Share capital	810,900,000.00	810,900,000.00
Less: investment returned	—	—
Net share capital	810,900,000.00	810,900,000.00
Capital surplus	1,114,220,189.56	1,109,075,604.20
Reserved fund	124,276,436.70	101,507,382.18
Including: public welfare fund	52,000,975.21	44,411,290.37
Retained earnings	234,060,439.79	152,615,113.29
<b>Total Shareholders' equity</b>	<b>2,283,457,066.05</b>	<b>2,174,098,099.68</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,352,947,427.42</b>	<b>2,236,360,759.31</b>

# INCOME STATEMENT

For the Year ended 31 December 2002

Form 6

Monetary Unit: RMB Yuan

Item	Note	2002	2001
<b>I. Sales</b>			
Less: Cost of sales		—	—
Sales tax and levies		—	—
<b>II. Profit from principal operations</b>		—	—
Add: Profit from other operations		3,299,534.99	5,102,306.96
Less: Operating expenses			
General and administrative expenses		27,642,298.17	22,771,419.12
Financial expenses		(5,006,323.96)	(15,726,448.75)
<b>III. Operating profit</b>		(19,336,439.22)	(1,942,663.41)
Add: Investment income	7-3	178,636,602.10	152,275,101.82
Subsidies income		—	—
Non-operating income		216,632.01	83.13
Less: Non-operating expenses		7,141,463.06	216,817.78
<b>IV. Total profit</b>		152,375,331.83	150,115,703.76
Less: Income tax		581,635.02	—
<b>V. Net profit</b>		151,793,696.81	150,115,703.76

## Supplemental information:

No.	Item	2002	2001
1	Revenue from sale or disposal of department or invested company	—	—
2	Loss incurred from natural disaster	—	—
3	Total profit increased (decreased) due to accounting policy a alteration	—	—
4	Total profit increased (decreased) due to accounting estimation a alteration	—	—
5	Loss from debts reconstruction	—	—
6	Others	—	—

# PROFIT APPROPRIATION STATEMENT

For the Year ended 31 December 2002

Form 7  
Monetary Unit: RMB Yuan

Item	2002	2001
<b>1. Net Profit</b>	<b>151,793,696.81</b>	150,115,703.76
Add: Retained earnings brought forwards	<b>152,615,113.29</b>	73,670,765.10
Add: Transfer from others	<b>1,074,684.21</b>	—
<b>2. Profit distributable</b>	<b>305,483,494.31</b>	223,786,468.86
Less: Transfer to statutory surplus reserves	<b>15,179,369.68</b>	15,011,570.38
Less: Transfer to public welfare fund	<b>7,589,684.84</b>	7,505,785.19
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
<b>3. Profit distributable to shareholders</b>	<b>282,714,439.79</b>	201,269,113.29
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	<b>48,654,000.00</b>	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—
<b>4. Retained earnings</b>	<b>234,060,439.79</b>	<b>152,615,113.29</b>

# CASH FLOW STATEMENT

For the Year ended 31 December 2002

Form 8-1

Monetary Unit: RMB Yuan

Item	Amount
<b>I. Cash flows from operating activities:</b>	
Cash received from sales of goods or rendering of services	—
Refund of tax and levy	282,956.00
Other cash received relating to operating activities	8,501,708.79
<b>Subtotal of cash inflows</b>	<b>8,784,664.79</b>
Cash paid for goods or services	—
Cash paid to or on behalf of employees	8,207,747.79
Taxes paid	4,274,962.90
Other cash paid in relation to operating activities	20,099,227.62
<b>Subtotal of cash outflows</b>	<b>32,581,938.31</b>
<b>Net cash flows from operating activities</b>	<b>(23,797,273.52)</b>
<b>II. Cash flows from investing activities:</b>	
Cash received from return of investments	18,071,261.69
Cash received from investment income	77,008,658.92
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—
Other cash received from investing activities	64,079,943.80
<b>Subtotal of cash inflows</b>	<b>159,159,864.41</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	6,881,866.17
Cash paid to acquire investments	188,109,203.12
Other cash paid in relation to investing activities	20,720,000.00
<b>Subtotal of cash outflows</b>	<b>215,711,069.29</b>
<b>Net cash flows from investing activities</b>	<b>(56,551,204.88)</b>
<b>III. Cash flows from financing activities</b>	
Proceeds from absorbing investments	—
Proceeds from borrowings	—
Other proceeds relating to financing activities	—
<b>Subtotal of cash inflows</b>	<b>—</b>
Cash repayments of amounts borrowed	—
Cash payments for distribution of dividends, profits or interest expenses	48,653,989.25
Other cash payments relating to financing activities	—
<b>Subtotal of cash outflows</b>	<b>48,653,989.25</b>
<b>Net cash flows from financing activities</b>	<b>(48,653,989.25)</b>
<b>IV. Effect of foreign exchange rate changes on cash</b>	<b>44,000.54</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>(128,958,467.11)</b>

# CASH FLOW STATEMENT

For the Year ended 31 December 2002

Form 8-2  
Monetary Unit: RMB Yuan

## Supplemental Information

Item	Amount
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>	
Net profit	151,793,696.81
Add: Provision for value impairment of assets	150,613.06
Depreciation of fixed assets	2,533,349.99
Amortization of intangible assets	—
Amortization of long-term prepaid expenses	826,131.36
Decrease in prepaid expenses (less: increase)	—
Increase in accrued expenses (less: decrease)	950,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	(203,520.00)
Losses on scrapping of fixed assets	27,112.18
Financial expenses	10,460.57
Losses on investments (less: gains)	(178,636,602.10)
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	—
Decrease in operating receivables (less: increase)	(1,809,098.70)
Increase in operating payables (less: decrease)	560,583.31
Others	—
<b>Net cash flows from operating activities</b>	<b>(23,797,273.52)</b>
<b>2. Investing and financing activities that do not involve in cash receipts or payments:</b>	
Liabilities transferred into capital	—
Convertible bonds due within 1 year	—
Fixed assets under financing lease	—
<b>3. Net increase in cash and cash equivalents:</b>	
Cash at the end of the period	204,624,119.72
Less: Cash at the beginning of the period	333,582,586.83
Add: Cash equivalents at the end of the period	—
Less: Cash equivalents at the beginning of the period	—
<b>Net increase in cash and cash equivalents</b>	<b>(128,958,467.11)</b>

# BREAKDOWN OF PROVISION FOR ASSET'S VALUE IMPAIRMENT

For the Year ended 31 December 2002

Form 9

Monetary Unit: Renminbi Yuan

Item	Beginning balance	Addition	Reversal	Closing balance
1. Total provision for bad debts	43,499,657.18	2,878,822.81	609,290.44	45,769,189.55
Including: Accounts receivable	33,913,217.33	5,471,086.93	592,791.89	38,791,512.37
Other receivables	9,586,439.85	(2,592,264.12)	16,498.55	6,977,677.18
2. Total provision for short-term investment	910,056.63	1,485,480.13	—	2,395,536.76
Including: Stock investment	910,056.63	1,485,480.13	—	2,395,536.76
Debenture investment	—	—	—	—
3. Total provision for inventories	1,475,155.09	(786,058.28)	—	689,096.81
Including: Goods in stock	1,171,340.22	(780,996.19)	—	390,344.03
Raw materials	303,814.87	-5,062.09	—	298,752.78
4. Total provision for long-term investment	9,509,678.46	23,188,107.70	142,491.48	32,555,294.68
Including: Long-term equity investment	9,509,678.46	23,188,107.70	142,491.48	32,555,294.68
Long term debenture investment	—	—	—	—
5. Total provision for fixed assets	24,753,795.66	4,810,547.79	—	29,564,343.45
Including: Houses & buildings	10,181,008.23	8,928,785.11	—	19,109,793.34
Machinery equipment	14,247,509.84	(4,203,337.31)	—	10,044,172.53
6. Provision for intangible assets	9,384,070.90	(8,417,919.44)	—	966,151.46
Including: Patent	—	—	—	—
Trademark	—	—	—	—
7. Provision for construction work in progress	11,928,475.49	(11,928,475.49)	—	—
8. Provision for loan by trust	—	—	—	—

# NOTES TO THE ACCOUNT

## I. BASIC CONDITION OF THE COMPANY

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

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

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

The Group’s structure presently includes seven Chinese patent medicine manufacturing entities, one chemical materials medicine manufacturing entity, two medical research & development entities and three pharmaceutical trading entities.

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

### 1. Accounting System

The Group implements the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises as well as its supplementary regulations.

### 2. Accounting Period

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

### 3. Reporting Currency

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

### 4. Basis of Recording and Valuation

Basis of recording adopts the accrual concept and the Basis of Valuation is stated at historical cost.



## 5. Foreign Currency Translation

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

## 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 Group prepares the cash flow statement.

## 7. Provision for Bad Debts

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

Certified standard of bad debts recognition:

- A. If the debtor becomes bankrupt or dies, the amount remaining after deducting that portion of the debt repaid, will be the amount of the unpaid receivable;
- B. 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.

According to the standard of provision for bad debts approved by the board of directors, the Group provides provision for bad debts based on the aging of receivable balances. In addition, the Group provides 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:

Aging	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 receivables include accounts receivable and other receivables. The Group provides provision for other receivables after deduction of the balance of inter-company debtors, unreimbursed business disbursements and other current accounts not related to repayment of accounts.

# NOTES TO THE ACCOUNT

## 8. Inventories

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

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

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

(1) Manufacturing enterprises:

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

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

(2) Commercial enterprises:

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

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

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

## 9. Short-term investments

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

(2) Short-term investments of the Group are priced at the lower of cost and market value. At the year-end, if market value is lower than cost, provision will be made for the difference.

## 10. Long-term equity investments

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

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

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

Equity investment differences are amortized averagely over the investment period, if any, as stipulated in the investment contract. If the investment period is not specified in the contract, the excess of the investment cost over the investor's share of owner's equity of the investee enterprise is amortized over a period 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 debt investments

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

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

## 12. Provision for long-term investments

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

# NOTES TO THE ACCOUNT

## 13. Fixed Assets and Depreciation

Fixed assets include buildings, motor vehicles, machinery and equipment which have useful lives over one year and whose unit costs are greater than RMB2,000. Fixed assets are stated at cost. Depreciation is provided to write off the cost over their useful lives at straight-line method, taking into account the estimated residual value of 1% to 5% (10% for foreign investment enterprises). The annual rates of depreciation are as follows:

Fixed assets category	Depreciation life	Depreciation rate
Houses and buildings	15-20 years	1.80%-6.60%
Machinery equipment	4-18 years	5-24.75%
Vehicles	5-10 years	9-19.80%
Electric equipment	5-10 years	9-19.80%
Office equipment	4-8 years	11.25-24.75%
Other equipment	4-15 years	6-24.75%

When depreciation is provided to the assets with provision for value impairment, the depreciation rate and amount are recomputed based on the book value of assets (i.e., original cost less accumulated depreciation and provision), and the remaining useful lives; in case the value of fixed assets with provision is recovered, the depreciation rate and amount shall be recomputed at the new book value.

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

## 14. Construction work in progress

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

## 15. Intangible assets and Amortization

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

Intangible assets of the Group are priced at the lower of book value and recoverable amount. At the year-end, if recoverable amount is lower than book value, provision will be made for the difference.

## 16. Long-term deferred expenses

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

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

## 17. Accounting for borrowing cost

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

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

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

## 18. Recognition of revenue

Revenue from sales of goods is recognized when goods are dispatched, the title to the goods and its major risks and rewards are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale of goods can be measured reliably.

Revenue from rendering of services is recognized upon having rendered service and obtained the payment or payment evidence.

## 19. Taxation

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

## 20. Basis of preparation of consolidated financial statements

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

# NOTES TO THE ACCOUNT

## III. TAXATION AND OTHER ADDITIONAL TAXES

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

### 1. Circulating tax and other additional taxes

#### 1) Circulating tax

Taxable item	Tax	Rate
Revenue from sale of products	Value-added tax	17%
Revenue from transfer of materials	Value-added tax	17%
Revenue of rental	Business tax	5%
Revenue of capital employed	Business tax	6%
Revenue from sale of wine products	Consumption tax	10%

#### 2) City construction tax

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

#### 3) Education surcharge

The education surcharge is calculated and paid based on 3% of total circulating tax. Subsidiaries of the Group, which are foreign invested enterprises, are exempted from education surcharge in accordance with PRC regulations.

### 2. Enterprise income tax

The Group accrues and pays enterprise income tax at the rate of 33% in accordance with “Temporary regulation of corporate income tax in the People’s Republic of China”.

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

## IV. SUBSIDIARIES AND JOINT VENTURES

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

Name of the Company	Share capital RMB'000	Invested amount of the Group to its subsidiaries RMB'000	% of equity interest	Principal activities
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	50,000	48,720	97.4431	Research & development of medicine and products of health care
Guangzhou Baidi Bio- medicine Co., Ltd.	50,000	46,400	92.8	Research & development of medicine
Guangzhou Huanye Medicine Manufacturing Co., Ltd.	6,000	3,580	59.701	Manufacturing chemical material medicine
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	77,170	68,670	88.99	Production of Chinese patent medicine
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	161,050	97.016	Production of Chinese patent medicine
Guangzhou Chen Li Ji Chinese Medicine Factory	94,000	94,000	100	Production of Chinese patent medicine
Guangzhou Qi Xing Pharmaceutical Factory	82,420	82,420	100	Production of Chinese patent medicine
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	86,230	76,230	88.4	Production of Chinese patent medicine
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	65,440	57,440	87.78	Production of Chinese patent medicine
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	106,380	98,380	92.48	Production of Chinese patent medicine
Guangzhou Pharmaceutical Co., Ltd.	222,000	215,330	96.9941	Trading of Western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation	69,700	69,700	100	Trading of Chinese patent medicine and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Corporation	15,000	15,000	100	Import and export of medicine

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

The Group holds 80% equity interest in Guangzhou Medicine Commodities Exhibition Store, but does not include it in the consolidation based on the material principle as its total assets, sales and net profit to which the Group is entitled to all below 10% of those of the total of the Group and in addition the store commenced its liquidation stage in the current year.

The Group holds 53% equity interest of Guangdong Xinghua Health Drink Co., Ltd., but does not include it in the consolidation as the Company does not have substantial control over the investee pursuant to relevant contracts and articles of association.

# NOTES TO THE ACCOUNT

3. **Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd., Guangzhou Baidi Bio-medicine Co., Ltd. and Guangzhou Huanye Medicine Manufacturing Co., Ltd. are added to the consolidation scope and the reasons are as follows:**

The Company holds 97.70% and 92.80% (90% and 82% at the end of last year) equity interest in Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. and Guangzhou Baidi Bio-medicine Co., Ltd. respectively at the year end. The Group did not include them in the consolidation based on the material principle last year while included them in the consolidation this year as operating losses occurred to the two subsidiaries in accordance with the regulations of the Reply on the consolidation scope for the consolidated financial statements issued by the Ministry of Finance with reference CKEZ[1996] No. 2. The consolidated statements of the Company were based on the subsidiaries' accounting statements prepared on the basis of the main accounting policies of the Company and made corresponding adjustments to the beginning balance of the consolidated statements.

In the current year the Company purchased 59.701% equity interest of Guangzhou Huanye Medicine Manufacturing Co., Ltd. and obtained substantial control of it, therefore included it in the consolidation. The date of stock purchase is December 31, 2002. The Company regarded the date at which the right of controlling the net assets and operation of the purchased enterprise was transferred to the Company as the date of purchasing the stock. The specific method of assuring the above conditions being satisfied is that agreement of stock purchase has been passed in the shareholders' meeting, necessary property transfer procedure has been fulfilled and purchase payment has been made.

4. Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of Guangzhou Qi Xing Pharmaceutical Factory, is an enterprise with foreign investment which used to apply "Accounting Regulation of PRC for Enterprises with Foreign Investment". According to the document of the Ministry of Finance with reference of CK[2001] No. 62, Guangzhou Qi Xing Pharmaceutical Company Limited implements the Accounting Regulation for Business Enterprises from January 1, 2002, working out accrual policies of provision for value impairment of assets and making retrospective adjustment to related accounts.

## V. PROFIT APPROPRIATION

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

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

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



# NOTES TO THE ACCOUNT

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

### 1. Cash

	Closing balance	Opening balance
Cash on hand	1,613,278.00	925,989.24
Cash in bank	993,825,484.15	890,198,818.65
Other monetary funds	24,464,416.80	2,567,834.69
	<u>1,019,903,178.95</u>	<u>893,692,642.58</u>

#### (1) Breakdown of cash in bank

	Closing balance	Opening balance
Current deposit	646,986,537.82	543,923,762.90
Fixed deposit	346,838,946.33	346,275,055.75
	<u>993,825,484.15</u>	<u>890,198,818.65</u>

#### (2) Breakdown of other monetary funds

	Closing balance	Opening balance
Credit card deposit	238,696.27	796,196.84
L/C guaranty deposit	7,387,026.21	1,771,637.85
Bank bill deposit	16,838,694.32	—
	<u>24,464,416.80</u>	<u>2,567,834.69</u>

Current deposits amounted to HKD 4,003,650.05 and USD851.89 placed in Hong Kong, equivalent to RMB 4,248,231.29 and RMB7,051.35 respectively.

### 2. Short-term investments

	Closing balance	Provision	Market price at the year-end
Stock	3,662,322.66	920,003.76	2,742,703.19
Treasury bill	59,927,600.00	1,475,533.00	58,460,447.00
	<u>63,589,922.66</u>	<u>2,395,536.76</u>	<u>61,203,150.19</u>

According to the closing price of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on 31 December 2002, the Group made provision for the amount of which the market price is lower than cost.

### 3. Notes receivable

The balance of RMB 180,000.00 represents bank acceptance bill.

# NOTES TO THE ACCOUNT

## 4. Dividends receivable

	Closing balance	Opening balance
Nanhai Southern Packing Company Limited	5,106,895.00	5,128,565.00
GETDD Yongcheng Medicine Trading Co., Ltd.	367,789.92	650,667.30
Guangzhou Zhongfu Pharmaceutical Company Limited	—	300,843.19
	<u>5,474,684.92</u>	<u>6,080,075.49</u>

## 5. Accounts receivable

### (1) Aging analysis of accounts receivable

Aging	Closing balance		Bad debt provision	Provision Percentage
	Balance	Percentage		
Within 1 year	702,018,180.98	92.95%	7,463,417.61	1.06%
Over 1 year and within 2 years	13,915,260.16	1.84%	1,396,272.50	10.03%
Over 2 years and within 3 years	9,243,624.58	1.23%	3,026,900.14	32.75%
Over 3 years and within 4 years	8,174,940.32	1.08%	6,028,518.11	73.74%
Over 4 years and within 5 years	5,680,233.64	0.75%	4,634,598.70	81.59%
Over 5 years	16,241,805.31	2.15%	16,241,805.31	100.00%
	<u>755,274,044.99</u>	<u>100.00%</u>	<u>38,791,512.37</u>	<u>5.14%</u>

Aging	Opening balance		Bad debt provision	Provision Percentage
	Balance	Percentage		
Within 1 year	524,471,292.83	90.26%	5,500,744.29	1.05%
Over 1 year and within 2 years	14,313,546.58	2.46%	1,465,730.64	10.24%
Over 2 years and within 3 years	14,536,322.53	2.50%	4,360,896.76	30.00%
Over 3 years and within 4 years	8,087,606.35	1.39%	4,043,803.17	50.00%
Over 4 years and within 5 years	5,724,915.70	0.99%	4,579,932.56	80.00%
Over 5 years	13,962,109.91	2.40%	13,962,109.91	100.00%
	<u>581,095,793.90</u>	<u>100.00%</u>	<u>33,913,217.33</u>	<u>5.84%</u>

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

- (2) From the balance aforementioned, RMB57,187,095.05 is owed by the top five customers with largest balance, representing 7.57% of the total balance.
- (3) The bad debts provision has been written off by 172 items, amounting to RMB 4,945,113.31, of accounts receivable, among them no related party transaction is involved.

# NOTES TO THE ACCOUNT

- (4) The closing balance of accounts receivable is RMB169,300,000 more than the beginning balance, an increase of 30.94%. The main reason is that medical system reform is performed in the year 2002, and hospitals adopt bidding system for medicine purchase. Hospitals require the Company to extend the settlement term of payment, resulting in the extension of the turnover period of accounts receivable, thus a dramatic increase of the balance of accounts receivable.

## 6. Other receivables

- (1) Aging analysis of other receivables as at 31 December, 2002

Aging	Closing balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	71,525,059.73	55.04%	811,666.25	1.13%
Over 1 year and within 2 years	19,685,420.24	15.15%	1,862,697.62	9.46%
Over 2 years and within 3 years	13,800,383.35	10.62%	41,052.51	0.30%
Over 3 years and within 4 years	4,449,861.62	3.42%	50,000.00	1.12%
Over 4 years and within 5 years	7,570,986.98	5.83%	668,841.08	8.83%
Over 5 years	12,921,465.03	9.94%	3,543,419.72	27.42%
	<u>129,953,176.95</u>	<u>100.00%</u>	<u>6,977,677.18</u>	<u>5.38%</u>

Aging	Opening balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	96,991,674.43	66.45%	401,537.65	0.41%
Over 1 year and within 2 years	13,863,735.85	9.50%	600,229.40	4.33%
Over 2 years and within 3 years	13,937,386.62	9.55%	785,219.59	5.63%
Over 3 years and within 4 years	7,578,614.79	5.19%	936,966.02	12.36%
Over 4 years and within 5 years	5,628,534.90	3.86%	2,168,440.39	38.53%
Over 5 years	7,953,266.87	5.45%	4,694,046.80	59.02%
	<u>145,953,213.46</u>	<u>100.00%</u>	<u>9,586,439.85</u>	<u>6.66%</u>

- (2) Details of other receivables

	Closing balance
Current account with external company	82,995,866.68
Advance for operation	30,940,586.79
Deposit	3,687,302.80
Petty cash	1,610,827.69
Others	10,718,592.99
	<u>129,953,176.95</u>

# NOTES TO THE ACCOUNT

Among the other receivable accounts, the amount due from shareholder with 5% or more shareholding is due from the Holding amounted to RMB8,130,298.86.

- (3) From the balance aforementioned, RMB20,567,868.86 owed by the top five customers, representing 15.83% of the total balance.
- (4) The bad debts provision has been written off by 6 items of other receivables with an amount of RMB 356,533.80. Among them, no related party transaction is involved.

## 7. Advance to suppliers

- 1) From the balance aforementioned, no advance is paid to shareholders with 5% or more shareholding.
- 2) The closing balance of advance to suppliers is RMB39,533,650, an increase of 96.03%, and the cause is that Guangzhou Pharmaceutical Co., Ltd., a subsidiary of the Company, brought a great increase of RMB40,846,000 of advance to suppliers. Sankyo Co., Ltd. is one of the suppliers of Guangzhou Pharmaceutical Co., Ltd.. Sankyo Co., Ltd.'s medicine import license is due at the end of 2002, at the same time its medicine factory established in China is still in the preparation period and the application procedure of medicine manufacture permit is not complete yet. Guangzhou Pharmaceutical Co., Ltd. made an order for the use of a future year at the end of 2002 in order to assure the medicine purchased from the supplier will be sold normally in 2003, resulting in a great increase of advance to suppliers.

## 8. Subsidies receivable

	Closing balance	Opening balance
Export tax refundable	<u>10,064,712.63</u>	<u>5,673,006.90</u>

The closing balance of subsidies receivable is RMB4,391,706, an increase of 77.41%, and the main reason is that the import and export subsidiaries of the Group have not received the refundable tax from the tax departments for the year 2001. The increase of the closing balance over the beginning balance is export tax refundable for the year 2002.

## 9. Inventories

	Closing balance		Opening balance	
	Balance	Provision	Balance	Provision
Goods in transit	3,920,280.65	—	5,479,287.87	—
Raw material	78,262,771.39	298,752.78	91,458,334.51	303,814.87
Work in progress	35,133,621.26	—	39,868,567.80	—
Finished goods	85,135,120.98	—	48,502,329.65	81,488.32
Low-value Consumables	1,554,527.27	—	1,474,055.26	—
Packing Material	28,032,228.25	—	29,363,183.25	—
Consigned goods for process	1,342,025.86	—	906,026.31	—
Stock goods	613,928,504.51	390,344.03	617,745,095.37	1,089,851.90
Others	1,899,090.95	—	5,959.68	—
	<u>849,208,171.12</u>	<u>689,096.81</u>	<u>834,802,839.70</u>	<u>1,475,155.09</u>

# NOTES TO THE ACCOUNT

- (1) The Group made provision of RMB689,096.81 for obsolete and slow moving stock and those whose selling prices are lower than the cost based on the difference between the cost and net realizable value. Within the provision, RMB390,344.03 is provided at the difference of the highest retailing price stipulated by the State lower than the cost. The net realizable value of obsolete stock is calculated based on estimated proceeds. The net realizable value of slow moving stock is calculated based on market price.
- (2) The closing balance of provision for decline in price is RMB786,058 less than the beginning balance, a decrease of 53.29%. The main reason is that in the current year the Group disposed part of the inventories with provision.

## 10. Prepaid expense

	Opening balance	Addition	Amortization	Closing balance
Insurance expense	2,052,297.95	3,431,390.30	2,883,087.30	<b>2,600,600.95</b>
Repair and maintenance of fixed assets	2,511,742.65	2,830,006.08	4,758,821.25	<b>582,927.48</b>
Road toll	154,550.00	111,220.00	234,516.72	<b>31,253.28</b>
Advertising	—	1,152,000.00	—	<b>1,152,000.00</b>
Deductible input VAT	67,606,693.11	51,132,932.99	41,853,189.79	<b>76,886,436.31</b>
Others	173,371.84	707,490.32	406,460.99	<b>474,401.17</b>
	<u>72,498,655.55</u>	<u>59,365,039.69</u>	<u>50,136,076.05</u>	<u><b>81,727,619.19</b></u>

## 11. Long-term equity investments

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

Investee	Expired date	Shareholder percentage	Initial amount of investment
Guangdong Xinghua Health Drink Company Limited.	2008	53.00%	39,644,000.00
Indonesia Sanyou Industrial Company Limited	2014	50.00%	1,521,562.82
Guangzhou Zhongfu Pharmaceutical company Limited	N/A	50.00%	400,000.00
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	20.52%	615,000.00
Guangzhou Zhongsheng Medical Factory Taihe Substation	N/A	50.00%	1,000,000.00
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Co., Ltd.	N/A	44.00%	440,000.00
Holding Company of Nine Cities Eleven Factories Association	N/A	—	50,000.00
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	516,930.33
Hang Zhou Medical Station Co. Ltd.	N/A	13.47%	264,000.00
Guangzhou Medicine Commodities Exhibition Store	N/A	80.00%	861,392.58
GETDD Yongcheng Medicine Trading Co., Ltd.	N/A	24.00%	480,000.00
Guangzhou Medicine Company Bei Jing Lu Medicine Store	N/A	20.00%	160,000.00
Chinese Medical Trading Association Co. Ltd.	N/A	10%	400,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	2005	40.00%	362,826.38
Nanhai Nanfang Packing Co., Ltd.	2011	21.42%	30,000,000.00
Jihua Medical Appliance Company Limited	N/A	24.00%	2,000,000.00
Guoyao Group Industrial Co., Ltd.	N/A	10.00%	8,000,000.00
Jinying Fund Management Co., Ltd.	N/A	20.00%	20,000,000.00
Communication Bank Guangdong Branch	N/A	—	348,356.00
Everbright Bank	N/A	0.30%	10,725,000.00

# NOTES TO THE ACCOUNT

(2) Change of long-term equity investments in the current year are as following:

Investee	Closing balance	Current fluctuation under equity method	Accumulated fluctuation under equity method	Provision	Note
Guangdong Xinghua Health Drink Company Limited.	37,719,437.29	(1,338,023.90)	(1,924,562.71)	29,907,945.05	[1]
Indonesia Sanyou Industrial Company Limited	1,412,034.58	—	—	1,412,034.58	[2]
Guangzhou Zhongfu Pharmaceutical company Limited	1,380,189.45	225,158.20	980,189.45	—	
Shanghai Jiuhe Tang Chinese Medicine Company Limited	615,000.00	—	—	—	
Guangzhou Zhongsheng Medical Factory Taihe Substation	785,315.05	—	(214,684.95)	785,315.05	[3]
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Co., Ltd.	400,071.75	(39,928.25)	(39,928.25)	—	
Holding Company of Nine Cities Eleven Factories Association	50,000.00	—	—	50,000.00	[4]
Ming Tai Industrial (Thailand) Company Limited	311,749.32	(20,969.76)	(205,181.01)	—	
Hang Zhou Medical Station Co. Ltd.	264,000.00	—	—	—	
Guangzhou Medicine Commodities Exhibition Store	696,142.61	35,319.84	(165,249.97)	—	
GETDD Yongcheng Medicine Trading Co., Ltd.	1,288,595.25	70,167.14	808,595.25	—	
Guangzhou Medicine Company Bei Jing Lu Medicine Store	218,399.05	—	58,399.05	—	
Chinese Medical Trading Association Co. Ltd.	400,000.00	—	—	400,000.00	[5]
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	—	—	—	
Nanhai Nanfang Packing Co., Ltd.	30,000,000.00	—	—	—	
Jihua Medical Appliance Company Limited	1,389,666.53	(610,333.47)	(610,333.47)	—	
Guoyao Group Industrial Co., Ltd.	8,000,000.00	—	—	—	
Jinying Fund Management Co., Ltd.	20,000,000.00	—	—	—	
Guangzhou Pangaoshou Natural Health Product Co., Ltd. (consolidation variance)	1,462,420.83	—	—	—	[6]
Guangzhou Huanye Medicine Manufacturing Co., Ltd. (consolidation variance)	992,341.19	—	—	—	[7]
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. (consolidation variance)	158,596.04	—	—	—	[8]
Guangzhou Baidi Bio-medicine Co., Ltd.	350,728.91	—	—	—	[9]
Communication Bank Guangdong Branch	362,750.00	—	—	—	
Everbright Bank	10,725,000.00	—	—	—	
	<u>119,345,264.23</u>	<u>(1,678,610.20)</u>	<u>(1,312,756.61)</u>	<u>32,555,294.68</u>	

# NOTES TO THE ACCOUNT

- Note 1: As Guangdong Xinghua Health Drink Company Limited sustained loss for 5 years with material risk of value impairment of assets, the Group has made provision at 80% of book value of this investment based the investee's continuing deteriorating financial situation.
- Note 2: As the Group can not obtain the financial materials from Indonesia Sanyou Industrial Company Limited since the year 1997, and isn't aware of the present situation of the investee, provision is made in full amount for this investment on the basis of conservatism principle.
- Note 3: Guangzhou Zhongsheng Medical Factory Taihe Factory sustained significant loss and met difficulty in operation. The liquidation agreement of the factory in 2001 had not been reached and the process of liquidation is slow. Based on the conservatism principle, provision at the full amount is made.
- Note 4: As the Group can not obtain the financial materials from Holding Company of Nine Cities Eleven Factories Association, and isn't aware of the present situation of the investee, provision is made in full amount for this investment on the basis of conservatism principle.
- Note 5: Since Chinese Medical Trading Association Co. Ltd. is facing severe operational difficulty, it is estimated that the investment is hard to reclaim, A provision in full amount is made.
- Note 6: Consolidation variance of Guangzhou Pangaoshou Natural Health Protection Co., Ltd. of RMB1,462,420.83 represents the difference between the payment for 32% and 15% share of the company in October 1999 and November 2002 and the share of equity interest acquired. The share of Guangzhou Pangaoshou Natural Health product Company Limited held by Guangzhou Pangaoshou Pharmaceutical Co. Ltd. increased from 43% to 90% accordingly. The equity investment difference, whose initial amount is RMB 1,990,885.94, is amortized over the investment period commencing from the next month of obtaining the investment as stated in the investment contract. Amortization in the current year is RMB171,853.68, and the accumulated amortization is RMB528,465.11.
- Note 7: Consolidation variance of Guangzhou Huanye Medicine Manufacturing Co., Ltd. of RMB992,341.19 represents the difference between the total of payment for share and increment of capital in December 2002 and the share of equity interest acquired. The difference will be evenly amortized from January 2003. The Company holds 59.70% of Guangzhou Huanye Medicine Manufacturing Co., Ltd. after the transaction.
- Note 8: Consolidation variance of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. of RMB158,596.04 represents the difference between the payment for stock of 7.70% of Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. in April 2002 and the share of equity interest acquired. The share held by the Company increased from 90% to 97.70% after the transaction.
- Note 9: Consolidation variance of Guangzhou Baidi Bio-medicine Co., Ltd. of RMB350,728.91 represents the difference between the payment for stock of 10.80% of Guangzhou Baidi Bio-medicine Co., Ltd. in June 2002 and the share of equity interest acquired. The share held by the Company increased from 82% to 92.80% after the transaction.

# NOTES TO THE ACCOUNT

- (3) The closing balance of long-term equity investments is RMB28,750,000 more than the beginning balance, an increase of 31.73%, and the main reason is the Company made two new investments amounting to RMB28,000,000 to Guoyao Group Industrial Co., Ltd. and Jinying Fund Management Co., Ltd. in the current year.
- (4) The closing balance of provision for long-term equity investment is RMB23,046,000 more than the beginning balance, an increase of 242.34%, and the main reason is that the Group provided provision of RMB22,096,000 for long-term investment in Guangdong Xinghua Health Drink Company Limited.

## 12. Fixed assets and accumulated depreciation

Cost	Opening balance	Additions	Disposals	Closing balance	Provision
Houses & building	587,862,052.53	115,878,117.43	21,910,374.17	681,829,795.79	18,763,309.95
Machinery	416,248,073.52	45,011,432.20	21,669,432.01	439,590,073.71	10,390,655.92
Transportation Vehicle	81,564,244.50	7,430,904.93	5,586,391.92	83,408,757.51	280,857.44
Electronic equipment	9,763,672.50	2,257,127.49	143,650.00	11,877,149.99	—
Office equipment	26,508,576.78	5,030,355.36	765,119.64	30,773,812.50	129,520.14
	<u>1,121,946,619.83</u>	<u>175,607,937.41</u>	<u>50,074,967.74</u>	<u>1,247,479,589.50</u>	<u>29,564,343.45</u>

Accumulated depreciation	Opening balance	Provision	Written off	Closing balance
Houses & building	115,765,981.07	25,194,888.55	3,151,528.30	137,809,341.32
Machinery	210,683,672.04	41,169,330.63	16,835,109.67	235,017,893.00
Transportation Vehicle	43,687,591.03	7,657,165.65	4,288,738.33	47,056,018.35
Electronic equipment	5,478,973.10	1,703,711.36	118,746.94	7,063,937.52
Office equipment	12,065,889.45	3,800,940.97	606,759.85	15,260,070.57
	<u>387,682,106.69</u>	<u>79,526,037.16</u>	<u>25,000,883.09</u>	<u>442,207,260.76</u>

- (1) During the year, original cost of construction work in progress completed and transferred to fixed assets amounted to RMB102,631,468.10.
- (2) As at 31 December 2002, the Group has pledged its fixed assets with net book value of RMB118,030,000.00 (Last year: RMB137,606,000.00) for bank loans.
- (3) At the year-end, the Group provided provision of RMB29,564,343.45 for the difference whose recoverable amount are lower than the book value owing to their technology obsolescence, damage or idleness.



## 13. Construction in progress

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

Project	Budget	% of fund Financing source	used to budget
Relocation of Guangzhou Xingqun Pharmaceutical Company	243,688,046.72	Working Capital and loan	56%
Xingqun Manufacture Workshop project at phase 3	12,950,000.00	Working Capital	35%
Xingqun Repair Workshop project at phase 2	465,000.00	Working Capital	7%
Zhong Yi Office Building in Times Square	29,049,300.00	Working capital and loan	95%
Zhong Yi dust cleaning project	—	Working capital	—
Zhong Yi relocation of Yunpu workshop	197,030,000.00	Working Capital and loan	5%
Relocation and expansion of Chenlijj factory	29,000,000.00	Working capital	100%
Chinese medicine absorbing base of Chenlijj	—	Working capital and stock capital	—
Chenlijj product technical alteration	11,650,000.00	Working capital and stock capital	85%
Chenlijj product show room	4,000,000.00	Working capital and stock capital	1%
Hanfang equipment installation project	2,810,000.00	Stock capital	72%
Hanfang Conghua base construction	54,600,000.00	Stock capital	3%
Jingxiutang Prepayment for equipment	—	Working capital and loan	—
Jingxiutang Songgang base	—	Loan	—
Jingxiutang Anbike equipment installed	—	Working capital	—
Jingxiutang suppository production line	—	Working capital and stock capital	—
Jingxiutang Zhweifengtouguwan production line	—	Working capital and stock capital	—
Jingxiutang GMP upgrade project	30,300,000.00	Stock capital and loan	4%
Jingxiutang Wanhuayou GMP	3,000,000.00	Working capital	38%
Jingxiutang Renminnan project alteration	2,570,000.00	Working capital	100%
Pangaoshou office equipment	—	Stock capital	—
Pangaoshou vehicles	—	Stock capital	—
Pangaoshou GMP reconstruction project	100,000,000.00	Loan	7%
Pangaoshou office in Fuqian Building	7,707,542.02	Working capital and stock capital	1%
Yancheng self-made packing machine	—	Working capital	—
Yangcheng Filling Machine	—	Working capital	—
Alteration of Yangcheng materials warehouse	2,000,000.00	Working capital and stock capital	100%
Yangcheng pre-treatment technical alteration	2,850,000.00	Working capital and stock capital	100%
Yangcheng pill workshop	11,000,000.00	Working capital and stock capital	100%
Alteration of Yangcheng central checking room	2,000,000.00	Working capital and stock capitalx	100%

# NOTES TO THE ACCOUNT

Project	Budget	% of fund Financing source	used to budget
Yangcheng inter-factory maintenance	1,000,000.00	Stock capital	17%
Yangcheng manufacturing GMP workshop	37,400,000.00	Stock capital	60%
Alteration of Yangcheng sewage treatment	400,000.00	Stock capital	3%
Alteration of Yangcheng boiler project	600,000.00	Stock capital	2%
Alteration of Yangcheng dangerous articles warehouse	—	Stock capital	—
Yangcheng pill technology project	—	Stock capital	—
Alteration of Yangcheng distilling workshop technology	—	Stock capital	—
Import & export ERP project of Guangzhou Pharmaceutical Corporation	600,000.00	Stock capital	16%
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	52,980,000.00	Working capital, stock capital and loan	16%
Suikang Building of Guangzhou Pharmaceutical Corporation	39,239,480.00	Stock capital	100%
Computer installation of Guangzhou Pharmaceutical Corporation	1,120,260.00	Working capital and stock capital	30%
Office building renovation of Guangzhou Pharmaceutical Corporation	1,973,696.60	Working capital	41%
Tangjiangcun project of Guangzhou Pharmaceutical Corporationx	1,973,696.60	Working capital	41%
Power room of Jianming Chainstore	262,356.30	Working capital	100%
Caizhiling store in Qiaocheng Garden	1,745,489.00	Working capital and stock capital	100%
Caizhiling store in Jiahong Garden	2,101,710.00	Working capital and stock capital	104%
Caizhilin store in Wanfeng Garden	2,300,000.00	Working capital and stock capital	100%
Caizhilin WNSI boiler	180,000.00	Working capital and stock capital	100%
Yingke software expense of phase 1	4,080,000.00	Stock capital	106%
Baidi equipment installation	—	Stock capital	—
Alteration of Baidi Zhongcun scientific research base	33,000,000.00	Stock capital	100%
Huanye development zone office building	323,120.00	Working capital	125%
Huanye solid preparation workshop project	4,738,900.00	Working capital	1%
Huanye development zone testing	115,500.00	Working capital	100%
Treatment & renovation of Huanye before plantation	304,153.06	Working capital	100%
Renovation of Huanye Fangcun district	—	Working capital	—
Huanye sewage treatment project	1,100,000.00	Working capital	100%
Huanye raw materials workshop project	4,198,100.00	Working capital	100%
Renovation of Pangaoshou workshop	2,500,000.00	Working capital	67%

# NOTES TO THE ACCOUNT

(2) Changes of construction work in progress in the current year are as following:

Project	Opening balance	Addition	Transferred to fixed asset	Other reduction	Closing balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	109,491,472.37	29,639,794.85	1,612,183.77	1,500,000.00	136,019,083.45
Xingqun Manufacture Workshop project at phase 3	—	4,498,512.02	—	—	4,498,512.02
Xingqun Repair Workshop project at phase 2	—	33,636.64	—	—	33,636.64
Zhong Yi Office Building in Times Square	462,440.00	—	—	462,440.00	—
Zhong Yi dust cleaning project	80,000.00	—	—	—	80,000.00
Zhong Yi relocation of Yunpu workshop	11,271,267.86	11,901,705.33	—	—	23,172,973.19
Relocation and expansion of Chenlijij factory	1,182,640.61	2,192,880.41	—	55,482.94	3,320,038.08
Chinese medicine absorbing base of Chenlijij	7,692.00	—	—	—	7,692.00
Chenlijij product technical alteration	4,507,543.08	6,285,058.12	882,709.83	—	9,909,891.37
Chenlijij product show room	15,000.00	14,400.00	—	—	29,400.00
Hanfeng equipment installation project	—	2,029,731.25	—	—	2,029,731.25
Hanfeng Conghua base construction	—	1,686,180.99	—	—	1,686,180.99
Jingxiutang Prepayment for equipment	1,942,977.28	4,960,055.59	2,455,273.20	2,806,674.49	1,641,085.18
Jingxiutang Songgang base	11,325,971.21	—	—	11,325,971.21	—
Jingxiutang Anbike equipment installed	50,000.00	—	—	—	50,000.00
Jingxiutang suppository production line	849,357.50	7,700,110.97	918,105.41	—	7,631,363.06
Jingxiutang Zhweifengtouguan production line	968,300.00	7,355,355.32	166,800.00	171,500.00	7,985,355.32

# NOTES TO THE ACCOUNT

Project	Opening balance	Addition	Transferred to fixed asset	Other reduction	Closing balance
Jingxiutang GMP upgrade project	51,400.00	1,275,140.06	—	246,500.00	1,080,040.06
Jingxiutang Wanhuyou GMP	—	1,232,100.00	79,900.00	—	1,152,200.00
Jingxiutang Renminnan project alteration	—	2,570,000.00	2,570,000.00	—	—
Pangaoshou office equipment	—	441,600.00	395,800.00	—	45,800.00
Pangaoshou vehicles	—	872,555.00	340,355.00	—	532,200.00
Pangaoshou GMP reconstruction project	—	7,925,915.62	498,872.10	—	7,427,043.52
Pangaoshou office in Fuqian Building	80,000.00	—	—	—	80,000.00
Yancheng self-made packing machine	248,259.35	195,982.66	444,242.01	—	—
Yangcheng filling machine	—	30,000.00	—	30,000.00	—
Alteration of Yangcheng materials warehouse	600,000.00	1,012,222.16	1,612,222.16	—	—
Yangcheng pre-treatment technical alteration	170,000.00	1,738,382.46	1,873,382.46	35,000.00	—
Yangcheng pill workshop	4,277,000.00	3,941,412.24	8,176,412.24	42,000.00	—
Alteration of Yangcheng central checking room	699,120.00	609,659.67	1,308,779.67	—	—
Yangcheng inter-factory maintenance	—	320,000.00	—	150,000.00	170,000.00
Yangcheng manufacturing GMP workshop	—	6,376,333.37	546,290.00	55,758.00	5,774,285.37
Alteration of Yangcheng sewage treatment	—	11,007.64	—	—	11,007.64
Alteration of Yangcheng boiler project	—	10,000.00	—	—	10,000.00
Alteration of Yangcheng dangerous articles warehouse	—	246,339.16	246,339.16	—	—
Yangcheng pill technology project	—	2,333,570.00	2,333,570.00	—	—
Alteration of Yangcheng distilling workshop technology	—	649,019.72	—	—	649,019.72
Import & export ERP project of Guangzhou Pharmaceutical Corporation	—	97,909.45	—	—	97,909.45

# NOTES TO THE ACCOUNT

Project	Opening balance	Addition	Transferred to fixed asset	Other reduction	Closing balance
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	672,232.64	7,870,174.78	—	—	8,542,407.42
Suikang Building of Guangzhou Pharmaceutical Corporation	31,700,000.00	1,275,835.00	32,975,835.00	—	—
Computer installation of Guangzhou Pharmaceutical Corporation	—	336,078.00	—	—	336,078.00
Office building renovation of Guangzhou Pharmaceutical Corporation	—	800,000.00	—	—	800,000.00
Tangjiangcun project of Guangzhou Pharmaceutical Corporation	—	300,000.00	300,000.00	—	—
Power room of Jianming Chainstore	270,659.91	—	270,659.91	—	—
Caizhiling store in Qiaocheng Garden	1,810,946.00	—	1,810,946.00	—	—
Caizhiling store in Jiahong Garden	2,179,473.00	—	—	—	2,179,473.00
Caizhilin store in Wanfeng Garden	1,200,600.00	1,100,000.00	2,300,600.00	—	—
Caizhilin WNSI boiler	25,600.00	213,766.27	239,366.27	—	—
Yingke software expense of phase 1	—	4,330,352.17	—	—	4,330,352.17
Baidi equipment installation	—	2,678,291.02	—	—	2,678,291.02
Alteration of Baidi Zhongcun scientific research base	—	33,494,755.47	33,494,755.47	—	—
Huanye development zone office building	—	410,419.11	—	7,500.00	402,919.11
Huanye solid preparation workshop project	—	67,928.23	—	—	67,928.23
Huanye development zone testing	—	115,500.00	—	—	115,500.00
Treatment & renovation of Huanye before plantation	—	329,967.80	—	—	329,967.80
Renovation of Huanye Fangcun district	—	329,533.68	289,533.68	—	40,000.00
Huanye sewage treatment project	—	831,500.00	774,970.00	56,530.00	—
Huanye raw materials workshop project	—	3,713,564.76	3,713,564.76	—	—
Renovation of Pangaoshou workshop	—	1,669,072.73	—	—	1,669,072.73
	<u>186,139,952.81</u>	<u>170,053,309.72</u>	<u>102,631,468.10</u>	<u>16,945,356.64</u>	<u>236,616,437.79</u>

# NOTES TO THE ACCOUNT

The closing balance of construction work in progress is RMB62,405,000 more than the beginning balance, an increase of 35.82%, mainly resulted from the Relocation of Guangzhou Xingqun Pharmaceutical Company Limited and Guangzhou Zhongyi Pharmaceutical Company Limited, additional injection of GMP upgrading project of Guangzhou Jingxiutang Pharmaceutical Co., Ltd., Guangzhou Pangaoshou Pharmaceutical Co., Ltd. and Guangzhou Yangcheng Pharmaceutical Co., Ltd..

- (3) At the end of the year, the Group does not accrue provision for work in progress. Provision for the last year amounted to RMB11,928,000 has been reversed during the reporting period.
- (4) Capitalized interest expense included in the construction in progress are as following:

Project	Opening balance	Addition	Transferred to fixed asset	Other reduction	Closing balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	13,952,759.22	595,287.50	—	1,500,000.00	13,048,046.72
Jingxiutang equipment	387,541.18	—	387,541.18	—	—
Jingxiutang Songgang base	11,325,971.21	—	—	11,325,971.21	—
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	—	80,202.80	—	—	80,202.80
	<u>25,666,271.61</u>	<u>675,490.30</u>	<u>387,541.18</u>	<u>12,825,971.21</u>	<u>13,128,249.52</u>

## 14. Intangible assets

- (1) Details of intangible assets are as following:

Items	Acquisition method	Cost	Provision	Remaining amortization period (No. of month)
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	—	516.00
Land use right of Renmin Road factory	Purchase	2,686,602.00	—	516.00
Land use right of No.34 of Guanlv Road	Purchase	40,873.95	—	480.00
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,600,547.00	—	486.00
Land use right of Conggui Road	Purchase	245,477.00	—	540.00
Land use right of No. 77 of Shanmulan	Purchase	199,200.00	—	569.00
Land use right of No. 32 of Duobao Road				
Changhua New Street and Shiguili No. 3	Purchase	1,392,144.00	—	211.00
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	—	545.00
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	—	536.00
Land use right of No. 1688 of Southern Guangzhou Avenue at the gate	Purchase	309,175.00	—	488.00

# NOTES TO THE ACCOUNT

Items	Acquisition method	Cost	Provision	Remaining amortization period (No. of month)
Land use right of Songgang Factory	Purchase	20,417,970.00	—	492.00
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	—	481.00
Land use right of Panyu Dongsha Development Distric	Purchase	15,947,019.00	—	516.00
Land use right of Guangzhou Baiyun District Jiangcun factory	Purchase	3,463,092.00	—	534.00
Land use right of Shi Er Pu New Street	Purchase	3,509,041.00	—	415.00
Land use right of He Ping West Road	Purchase	1,535,744.00	—	415.00
Land use right of Huang Jin Wei	Purchase	1,051,697.00	—	415.00
Land use right of No.103 of Da Tong Road	Land appraisal appreciation	17,928,863.00	—	370.00
Land use right of No.328 in Bei Jing Road	Purchase	1,306,988.00	—	114.00
Land use right of A area of Xin Zhou Warehouse	Purchase	1,096,704.00	—	514.00
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	480,700.24	515.00
Land use right of Sai Ba Kou Warehouse	Purchase	402,518.00	—	514.00
Land use right of Chang An Warehouse	Purchase	114,675.00	—	456.00
Land use right of Jiu Fo Warehouse	Purchase	65,136.00	—	399.00
Land use right of No.85 of Shang Jiu Road	Purchase	2,834,279.00	—	444.00
Land use right of No.26 of Hong Chang Street	Purchase	309,046.00	—	514.00
Land use right of No.20 of Bao Hua Bei Road	Purchase	163,591.00	—	399.00
Land use right of No.44 of Bing Jiang Xi Road	Purchase	577,366.00	—	456.00
Land use right of No.54 of Xi Hua Road	Purchase	21,541.00	—	546.00
Land use right of No.265 of Da Xin Road	Purchase	330,153.00	—	528.00
Land use right of No.265 of Hong De Road	Purchase	58,567.64	—	540.00
Land use right of No.1 of Sha Yuan 3rd Street	Purchase	37,120.00	—	672.00
Land use right of No.22 of Guang Zhi Road	Purchase	109,032.00	—	672.00
Land use right of No.29 of Tong Fu Zhong Long Dao Road	Purchase	27,045.00	—	672.00
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	—	533.00
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	Investment accepted	1,755,288.00	—	552.00
Land use right of Panyu Dongsheng Factory	Purchase	2,896,279.62	—	492.00
Medicine recipe and techniques	Investment accepted	338,640.00	—	48.00
Proprietary technology of Luoxuanzao	Investment accepted	500,000.00	—	84.00
Langcheng Financial software	Purchase	1,649,746.91	485,451.22	63.00
		<u>127,121,626.02</u>	<u>966,151.46</u>	

As the recoverable amount is lower than the book amount, the Group provides provision for the difference.

# NOTES TO THE ACCOUNT

(2) Changes of Intangible Assets in the current year are as below:

Items	Opening balance	Addition	Amortization	Accumulated amortization	Closing balance
Land use right of Nanzhou Road factory	3,963,633.57	—	88,377.72	425,790.15	3,875,255.85
Land use right of Renmin Road factory	2,420,413.42	—	54,828.60	321,017.18	2,365,584.82
Land use right of No.34 of Guanlv Road	36,421.37	—	890.10	5,342.68	35,531.27
Land use right of No.19-29 of Ningxiheng Street	1,426,069.23	—	35,094.51	209,572.28	1,390,974.72
Land use right of Conggui Road	225,838.85	—	4,909.53	24,547.68	220,929.32
Land use right of No. 77 of Shanmulan Road Changhua New Street and Shiguli No. 3	192,892.00	—	3,984.00	10,292.00	188,908.00
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguli No. 3	1,163,782.65	101,663.35	68,664.00	195,362.00	1,196,782.00
Land use right of No. 194 of Beijing Road	2,198,400.39	—	47,251.62	211,432.31	2,151,148.77
Land use right of No. 1688 of Southern Guangzhou Avenue	24,665,638.84	—	540,123.48	2,880,658.56	24,125,515.36
Land use right of No. 1688 of Southern Guangzhou Avenue at the gate	—	309,175.00	57,373.05	57,373.05	251,801.95
Land use right of Songgang Factory	19,037,469.54	—	17,217,088.17	18,597,588.63	1,820,381.37
Land use right of Nanhai Huangqi	1,317,109.76	2,745,265.67	359,154.57	386,779.14	3,703,220.86
Land use right of Panyu Dongsha Development Distric	14,370,805.00	—	318,936.00	1,895,150.00	14,051,869.00
Land use right of Guangzhou Baiyun District Jiangcun factory	3,224,845.89	—	70,875.72	309,121.83	3,153,970.17
Land use right of Shi Er Pu New Street	3,374,685.75	—	94,839.00	229,194.25	3,279,846.75
Land use right of He Ping West Road	1,476,943.04	—	41,506.56	100,307.52	1,435,436.48
Land use right of Huang Jin Wei	1,011,429.27	—	28,424.28	68,692.01	983,004.99
Land use right of No.103 of Da Tong Road	15,782,682.56	—	495,272.40	2,641,452.84	15,287,410.16
Land use right of No.328 in Bei Jing Road	1,165,397.72	—	29,951.79	171,542.07	1,135,445.93
Land use right of A area of Xin Zhou Warehouse	960,728.72	—	21,934.08	157,909.36	938,794.64
Land use right of B area of Xin Zhou Warehouse	2,349,978.34	—	42,483.60	368,646.26	2,307,494.74



# NOTES TO THE ACCOUNT

Items	Opening balance	Addition	Amortization	Accumulated amortization	Closing balance
Land use right of Sai Ba Kou Warehouse	352,611.80	—	8,050.32	57,956.52	344,561.48
Land use right of Chang An Warehouse	99,437.69	—	2,548.32	17,785.63	96,889.37
Land use right of Jiu Fo Warehouse	55,757.37	—	1,628.40	11,007.03	54,128.97
Land use right of No.85 of Shang Jiu Road	2,439,181.68	—	66,076.10	461,173.42	2,373,105.58
Land use right of No.26 of Hong Chang Street	270,728.65	—	6,180.96	44,498.31	264,547.69
Land use right of No.20 of Bao Hua Bei Road	140,036.50	—	4,089.72	27,644.22	135,946.78
Land use right of No.44 of Bing Jiang Xi Road	500,649.20	—	12,830.28	89,547.08	487,818.92
Land use right of No.54 of Xi Hua Road	—	21,541.00	1,938.60	1,938.60	19,602.40
Land use right of No.265 of Da Xin Road	297,137.70	—	6,603.06	39,618.36	290,534.64
Land use right of No.265 of Hong De Road	—	58,567.64	1,246.12	1,246.12	57,321.52
Land use right of No.1 of Sha Yuan 3rd Street	33,794.84	—	927.96	4,253.12	32,866.88
Land use right of No.22 of Guang Zhi Road	99,264.65	—	2,725.80	12,493.15	96,538.85
Land use right of No.29 of Tong Fu Zhong Long Dao Road	24,621.97	—	676.20	3,099.23	23,945.77
Land use right of No.12 of Fangcun Sai Ba Road	1,604,112.31	—	35,290.44	195,701.03	1,568,821.87
Medicine recipe and techniques	182,400.00	—	26,040.00	182,280.00	156,360.00
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	1,649,969.72	—	35,105.76	140,424.04	1,614,863.96
Proprietary technology of Luoxuanzao	249,900.00	—	49,980.00	300,080.00	199,920.00
Land use right of Panyu Dongsheng Factory	2,127,608.19	79,555.02	60,781.20	749,897.61	2,146,382.01
Langcheng Financial software	1,029,210.83	—	157,956.89	778,492.97	871,253.94
	<u>111,521,589.01</u>	<u>3,315,767.68</u>	<u>20,102,638.91</u>	<u>32,386,908.24</u>	<u>94,734,717.78</u>

# NOTES TO THE ACCOUNT

## 15. Long-term deferred expenses

(1) Details of long-term deferred expenses are as following:

Item	Amortization period	Remaining Cost	amortization period
Renovation	5 years	31,247,979.63	1~5 years
Expenditure on leasehold improvement	5 years	1,982,790.62	5 year
Expenditure on public utility	5 years	3,112,221.58	Nil
Installation of telephone	5 years	2,756,400.00	6 months
Maintenance expenditure on fixed assets	5 years	6,839,280.39	1~5 years
Expenditure on increment of water & electricity	5 years	2,373,782.60	Nil
Expenditure on increment of water & electricity of new factory	5 years	800,000.00	Nil
Revaluation surplus of H shares	5 years	8,199,065.99	6 months
Computer system	5 years	5,675,948.31	2~4 years
GMP project improvement	5 years	4,426,817.44	1 year
ERP system	5 years	4,778,094.82	1~3 years
Usage right of utilities	4 years	1,118,900.00	Nil
Medical fund for retired staff	5 years	2,414,500.00	3~6 months
Transitional medical fund for retired staff	10 years	3,049,676.46	9 years
Labor insurance premium	5 years	417,623.11	3 years and 9 months
Others	2~5 years	5,229,542.72	1~4 years
		<u>84,422,623.67</u>	

(2) Changes of Long-term Deferred Expense in the current year are as below:

Item	Opening balance	Addition	Amortization in 2002	Accumulated amortization	Closing balance
Renovation	15,365,366.47	10,874,955.82	9,132,276.46	14,139,933.80	17,108,045.83
Expenditure on leasehold improvement	338,760.00	288,990.62	396,558.12	1,751,598.12	231,192.50
Expenditure on public utility	402,241.34	—	402,241.34	3,112,221.58	—
Installation of telephone	312,458.84	323,080.20	482,680.04	2,603,541.00	152,859.00
Maintenance expenditure on fixed assets	1,022,484.10	5,314,072.23	1,232,095.76	1,734,819.82	5,104,460.57
Expenditure on increment of water & electricity	912,696.52	—	912,696.52	2,373,782.60	—
Expenditure on increment of water & electricity of new factory	160,016.00	—	160,016.00	800,000.00	—
Revaluation surplus of H shares	1,569,130.69	7,002.50	1,380,205.73	8,003,138.53	195,927.46
Computer system	3,606,960.11	107,540.00	2,207,673.31	4,169,121.51	1,506,826.80
GMP project improvement	667,444.99	—	315,916.39	4,075,288.84	351,528.60
ERP system	3,822,320.90	140,500.00	2,036,467.06	2,851,740.98	1,926,353.84
Usage right of utilities	251,752.64	—	251,752.64	1,118,900.00	—
Medical fund for retired staff	1,964,650.35	269,500.00	823,391.24	1,003,740.89	1,410,759.11
Transitional medical fund for retired staff	—	3,049,676.46	152,554.50	152,554.50	2,897,121.96
Labor insurance premium	334,098.49	—	83,524.56	167,049.18	250,573.93
Others	414,624.49	3,056,450.21	1,517,331.85	3,275,799.87	1,953,742.85
	<u>31,145,005.93</u>	<u>23,431,768.04</u>	<u>21,487,381.52</u>	<u>51,333,231.22</u>	<u>33,089,392.45</u>

# NOTES TO THE ACCOUNT

## 16. Short-term loans

	Closing balance	Opening balance
Loan by credit	—	6,360,000.00
Loan by mortgage and pledge	123,590,000.00	135,500,000.00
Loan by guaranty	431,750,000.00	245,820,000.00
	<u>555,340,000.00</u>	<u>387,680,000.00</u>

The closing balance of short-term loans is RMB167,660,000 more than the beginning balance, an increase of 43.25%, the main reason is that sales of the subsidiaries with commercial business of the Group increased dramatically and a bank loan of RMB222,910,000 was acquired to satisfy the turnover of capital.

## 17. Notes payable

	Closing balance	Opening balance
Bank acceptance	75,396,044.40	682,237.50
Commercial acceptance	2,782,540.00	—
	<u>78,178,584.40</u>	<u>682,237.50</u>

The closing balance of notes payable is RMB77,496,000 more than the beginning balance, an increase of 11,359%, the cause is that sales of the subsidiaries with commercial business of the Group increased dramatically, resulting in great increase of purchase. For the purpose of reducing capital employed and delaying cash outflows, bank acceptance is used in some purchase.

## 18. Accounts payable

Of the closing balance aforementioned, no current account is due to shareholders with 5% or more shareholding.

## 19. Advances from customers

Within the closing balance aforementioned, no advance is paid to shareholders with 5% or more shareholding.

## 20. Welfare payable

The closing balance of welfare payable is RMB14,552,000 more than the beginning balance, an increase of 34,24%, and the main reason is:

- (1) The total payroll of the Group increased to a considerable degree during this year, thus welfare accrued based on the payroll increased accordingly;
- (2) The staff welfare actually occurred was reduced compared with that of last year.

# NOTES TO THE ACCOUNT

## 21. Dividends payable

	Closing balance	Reason for non settlement
Guangzhou Pharmaceutical Holdings Limited	30,780,000.00	Dividend of 2002 will be paid in 2003
Overseas public shares	13,216,917.14	Payable dividend of 2002 and balance of 2000 will be paid in 2003
Domestic public shares	4,680,000.00	Dividend of 2002 will be paid in 2003
Minor shareholders	447,805.22	Dividend of 2001 unpaid
	<u>49,124,722.36</u>	

## 22. Taxes payable

	Closing balance	Opening balance
Business tax	740,573.03	761,421.24
Value added tax	1,333,586.80	515,997.72
City construction tax	1,003,648.19	875,768.73
Enterprise income tax	42,033,131.60	23,463,774.51
Property tax	284,122.75	619,829.36
Withholding tax	3,218,901.49	2,673,814.53
Others	159,665.03	3,501.14
	<u>48,773,628.89</u>	<u>28,914,107.23</u>

The closing balance of taxes payable is RMB19,860,000 more than the beginning balance, an increase of 68.69%, among which enterprise income tax accounts for 86.18%, whose closing balance is RMB18,440,000 more than the beginning balance with an increase of 78.59%. The main reason is:

- (1) Total profit of 2002 increase by 10.54% than that of 2001;
- (2) Enterprise income tax of the fourth quarter in 2002 has not been fully paid.

## 23. Other liabilities

	Note	Closing balance
Education surcharge	(1)	434,453.48
Flood prevention levy	(2)	3,383,546.08
Others		136,085.47
		<u>3,954,085.03</u>

- (1) Paid at 3% of the payable amount of VAT, Business tax and consumption tax.
- (2) Flood prevention levy is paid at 1.3% of VAT, Business tax, consumption tax and resources tax.

# NOTES TO THE ACCOUNT

## 24. Other payables

(1) Break down of closing balance of other payables

	Closing balance	Opening balance
Deposits	8,780,521.04	8,383,578.82
Technology improvement	5,768,611.34	17,080,712.35
Rental	390,321.04	200,437.54
Labor union fund	1,052,161.41	1,081,121.97
Staff education fund	9,813,531.62	9,052,834.68
Current accounts to external companies	51,578,116.68	58,332,720.41
Tax addition and government levies	1,556.10	693,121.34
Advance from staff	640,345.21	1,063,396.76
Labor insurance	609,183.24	4,758,192.23
Payables to the Holding	10,806,457.07	25,704,493.22
Staff bonus and welfare fund	6,473,607.43	2,226,852.13
Monetary subsidies of staff housing	2,051,227.59	—
Centralization fund	14,212,615.04	15,010,994.70
Operator incentive fund	5,522,549.41	2,350,000.00
Others	6,368,891.68	3,842,791.85
	<b>124,069,695.90</b>	<b>149,781,248.00</b>

(2) Among the other payable accounts, payables to the Holding, who holds over 5% of the total share amounts to RMB10,806,457.07.

## 25. Accrued expenses

	Closing balance	Opening balance
Loan interest	683,341.90	595,415.50
Rental	539,648.30	727,892.56
Audit fee	3,250,000.00	3,000,000.00
Water & electricity	6,200.00	95,000.00
Flood project expense	—	135,569.99
Others	145,916.62	—
	<b>4,625,106.82</b>	<b>4,553,878.05</b>

## 26. Long-term loans

Lender	Period	Interest rate	Closing balance	Condition
ICBC Guangzhou No. 1 Branch	2002-6-13~2004-6-12	5.49%	10,000,000.00	Credit
ICBC Guangzhou No. 1 Branch	2002-11-29~2005-11-28	5.49%	20,000,000.00	Credit
ICBC Guangzhou No. 1 Branch	2002-05-23~2007-05-20	5.49%	32,000,000.00	Mortgage
China Construction Bank Liwan Branch	2002-12-2~2005-12-2	5.49%	27,680,000.00	Guaranty
			<b>89,680,000.00</b>	

# NOTES TO THE ACCOUNT

The closing balance of taxes payable is RMB79,680,000 more than the beginning balance, an increase of 797.80%. The main reason is:

- (1) Guangzhou Pharmaceutical Co., Ltd., a subsidiary of the Company, borrowed RMB27,680,000 from bank for the logistic project in Huangjinwei warehouse;
- (2) Guangzhou Pangaoshou Pharmaceutical Co., Ltd., a subsidiary of the Company, borrowed RMB32,000,000 from bank for GMP renovation project;
- (3) Guangzhou Zhongyi Pharmaceutical Co., Ltd., a subsidiary of the Company, borrowed RMB20,000,000 from bank for relocation of Yunpu workshop.

## 27. Long-term payables

Creditor	Content	Closing balance	Opening balance
Guangzhou Financial Bureau	State dividends	2,732,919.49	2,732,919.49
Guangzhou Financial Bureau	State dividends managed on behalf	—	3,600,352.76
Others		886,978.12	2,520,949.18
		<u>3,619,897.61</u>	<u>8,854,221.43</u>

The closing balance of long-term payables is RMB5,234,000 less than the beginning balance, a decrease of 59.12%, resulting from the transfer of RMB3,600,000 of remained state dividends managed on behalf, which is not needed to pay, into capital surplus.

## 28. Special Obligation

Item	Closing balance	Opening balance
Three expenses of science and technology	4,000,000.00	—
Renovation of sewage treatment project fund	680,000.00	—
Special fund of pill technology for Xiaokewan	200,000.00	—
Special fund of technology export development	25,000.00	—
Renovation fund of pharmaceutical enterprises	1,468,638.24	—
Special fund for renovation	13,834,649.94	1,600,000.00
Special fund for Jiujie tea development	2,685,000.00	—
	<u>22,893,288.18</u>	<u>1,600,000.00</u>

The closing balance of special obligation is RMB21,293,000 more than the beginning balance, an increase of 1,331%, resulting from the special fund from Guangzhou Financial Bureau with a sum of RMB21,293,000.

## 29. Share Capital

Item	Opening balance	Addition	Reduction	Closing balance
Shares owned by the State	513,000,000.00	—	—	513,000,000.00
Domestic public shares	78,000,000.00	—	—	78,000,000.00
Overseas public shares	219,900,000.00	—	—	219,900,000.00
	<u>810,900,000.00</u>	<u>—</u>	<u>—</u>	<u>810,900,000.00</u>

The share capital has been verified by Guangzhou Yangcheng Certified Public Accountants Co., Ltd. by a capital verification report with reference of [2001]YV4526.

## 30. Capital Surplus

Item	Opening balance	Increase	Decrease	Closing balance
Share premium	912,565,150.29	—	—	912,565,150.29
Provision for donation in the form of non-cash assets	1,621,716.80	151,390.49	—	1,773,107.29
Donation in the form of cash	—	219,652.84	—	219,652.84
Transfer from appropriation	14,058,990.00	147,096.32	—	14,206,086.32
Other capital surplus	180,455,854.02	5,897,524.09	1,157,043.30	185,196,334.81
Exchange gain on foreign currency capital	373,893.09	—	—	373,893.09
	<u>1,109,075,604.20</u>	<u>6,415,663.74</u>	<u>1,157,043.30</u>	<u>1,114,334,224.64</u>

- (1) The closing balance of capital surplus is down by RMB1,387,764.58 compared with the beginning balance. The reason is that Guangzhou Chenliji Pharmaceutical Factory adjusted the items of the beginning balance of shareholders' equity according to stock translation scheme confirmed by the State Management Bureau of State-owned Assets in 1997 upon the reformation of the Company and issuance of H share. The adjustment results a decrease of RMB1,387,764.58 in capital surplus, an increase of RMB908,090.44 in earning surplus and an increase of RMB479,674.14 at the beginning retained earnings.
- (2) The increase of other capital surplus includes amount of unclaim payables amounted to RMB4,826,910.35.
- (3) The decrease of capital surplus resulted from making up the negative retained earnings in Guangzhou Medical Apparatus Wholesale Company, a subsidiary of Guangzhou Pharmaceutical Corporation Co., Ltd. under the Company. The subsidiary merged Guangzhou Medical Company Chemical Reagent Glass Instrument Wholesale Department and Guangzhou Medical Company Experiment Glass Instrument Shop and consolidated their audited financial statements as at 30 June, 2002. The consolidation resulted in negative retained earnings of Guangzhou Medical Apparatus Company Chemical Wholesale. Upon the approval of Guangzhou Pharmaceutical Corporation with ref. SYC[2002] No. 8, Guangzhou Medical Apparatus Company Wholesale used earning surplus and capital surplus to make up the above-mentioned negative retained earnings, thus brought a decrease of RMB1,157,043.30 to capital surplus.

## 31. Reserve fund

Item	Opening balance	Increase	Decrease	Closing balance
Statutory reverse fund	125,769,720.07	36,027,630.62	1,162,199.08	160,635,151.61
Statutory public welfare fund	82,925,402.32	26,803,510.06	—	109,728,912.38
Discretionary reserve fund	38,260,229.94	24,567,318.21	1,735,260.05	61,092,288.10
Transfer from tax exemption	4,973,493.07	—	—	4,973,493.07
	<u>251,928,845.40</u>	<u>87,398,458.89</u>	<u>2,897,459.13</u>	<u>336,429,845.16</u>

# NOTES TO THE ACCOUNT

- (1) The current increase represents reserve surplus accrued based on the net profit. In accordance with resolution of the 22nd meeting of the 2nd term of Directors Meeting, the Company will allocate statutory reserve fund and statutory public welfare fund at 10% and 5% of net profit; industrial enterprises subsidiaries of the Company will allocate statutory reserve fund, statutory public welfare fund and discretionary reserve fund all at 10% of profit after tax separately; while commodity circulating companies under the Company will allocate statutory reserve fund and statutory public welfare fund at 10% and discretionary reserve fund at 20% of profit after tax separately.
- (2) The decrease reflects the retained earnings used to make up losses by subsidiaries. Please refer to note 3 of “Capital Surplus” for details.

## 32. Retained earnings

- (1) Please refer to Form 3 for details of retained earning.
- (2) Please refer to Note V mentioned above for detailed policy of profit distribution.
- (3) According to the resolution passed in the 22nd meeting of the 2nd term of Directors Meeting, the Company proposed a total dividend of RMB0.06 per share for the year 2002, based on the total number of 810,900,000 shares, the total final dividend is RMB48,654,000.00.

## 33. Net sales

	2002	2001
(1) Manufacturing	<u>1,743,449,746.47</u>	<u>1,634,887,010.58</u>
(2) Trading		
Wholesale	3,794,685,908.00	3,281,569,451.40
Retail	307,500,860.52	357,169,891.00
Import & export sales	<u>98,186,815.52</u>	<u>60,402,357.20</u>
	<u>4,200,373,584.04</u>	<u>3,699,141,699.60</u>
	<u>5,943,823,330.51</u>	<u>5,334,028,710.18</u>

Sales from the top five customers total to RMB304,963,749.16, representing 5.13% of the total net sales.

## 34. Cost of sales

	2002	2001
(1) Manufacturing and selling	<u>789,366,023.51</u>	<u>793,221,277.88</u>
(2) Trading		
Wholesale	3,524,050,881.74	3,041,024,460.02
Retail	227,241,620.52	275,399,458.77
Import & export sales	<u>89,784,466.45</u>	<u>54,257,421.84</u>
	<u>3,841,076,968.71</u>	<u>3,370,681,340.63</u>
	<u>4,630,442,992.22</u>	<u>4,163,902,618.51</u>



# NOTES TO THE ACCOUNT

## 35. Sales tax and levies

	2002	2001
Business tax	650,094.22	650,841.75
City construction tax	16,372,409.64	14,982,583.43
Education surcharge	6,751,985.69	6,430,977.23
Others	196,570.57	36,943.97
	<u>23,971,060.12</u>	<u>22,101,346.38</u>

## 36. Profit from other operations

	2002	2001
(1) Income from other operations		
Assets leased	35,521,912.81	29,540,244.44
Sales of material	1,645,826.79	10,401,511.68
Interest	261,071.80	159,703.50
Income from storage and conference	230,954.96	6,077,157.55
Proxy service	695,978.20	—
Member shop	341,000.00	—
Income from product propaganda	2,699,778.97	127,100.00
Income from consultation	3,199,388.44	2,126,238.47
Others	1,078,757.49	1,332,030.87
	<u>45,674,669.46</u>	<u>49,763,986.51</u>
(2) Cost from other operations		
Assets leased	5,029,383.20	5,817,218.17
Sales of material	5,478,554.09	5,630,376.51
Tax & surcharge	852,020.38	1,915,218.30
Others	2,515,687.41	340,515.22
	<u>13,875,645.08</u>	<u>13,703,328.20</u>
	<u>31,799,024.38</u>	<u>36,060,658.31</u>

## 37. Financial expenses

	2002	2001
Net interest expense	14,091,898.54	6,637,842.60
Exchange loss and gain	186,310.31	(71,040.02)
Bank charges	1,041,175.39	341,249.69
Others	9,781.29	249,118.11
	<u>15,329,165.53</u>	<u>7,157,170.38</u>

The financial expenses increased by RMB8,172,000 compared to that of 2001 at 114.18%. The reason is increase of bank loans in 2002.

# NOTES TO THE ACCOUNT

## 38. Investment income

	2002	2001
Stock investment	78,094.09	3,043,350.82
Debt investment:    Debenture investment	—	(231,056.00)
Loan on behalf	—	—
Other debt investment	3,150,000.00	2,100.00
Profit from associated companies or joint ventures	5,394,255.36	4,054,313.69
Net increase(decrease) of equity investment interest	(2,475,585.78)	1,545,585.69
Provision for investment	(23,045,616.22)	(8,324,363.41)
Income from disposal on equity investment	—	(595,612.06)
	<u>(16,898,852.55)</u>	<u>(505,681.27)</u>

The current investment income increased by RMB16,393 thousand compared to the beginning balance, mainly because in the current period provision for value impairment of RMB22,096,000 and RMB439,000 was made for long-term equity investment—Guangdong Xinghua Health Drink Co., Ltd. and Indonesian Sanyou Industrial Co., Ltd respectively.

## 39. Subsidy income

Subsidy income in the current year RMB314,068.00 represents export subsidies.

The current subsidy income decreased by RMB3,198,000, a decrease of 91.06%. The main reason is that in the last year subsidy income including RMB2,800,000 of financial subsidy like technology renovation subsidy and RMB712,000 of export tax refund were received, while no such subsidy is received in the current year.

## 40. Non-operating income

	2002	2001
Net profit from disposal of fixed assets	617,288.05	105,750.09
Sales of obsolete material	7,758.14	15,978.46
Fine and confiscation	56,099.15	75,612.42
MTR removal compensation	1,563,295.02	4,652,742.36
Others	614,223.24	1,674,357.66
	<u>2,858,663.60</u>	<u>6,524,440.99</u>

The current non-operating income decreased by RMB3,666,000 compared to that of last year, representing a decrease of 56.18%, mainly because a decrease of RMB3,089,000 of MTR removal compensation.

# NOTES TO THE ACCOUNT

## 41. Non-operating expenses

	2002	2001
Net loss on disposal of fixed assets	11,322,791.63	1,167,961.43
Provision of value impairment of assets	11,802,296.39	928,637.93
Donation	1,553,131.13	1,492,772.07
Fine and confiscation	404,519.41	1,195,047.53
Exceptional loss	4,227.75	—
Urban dyke protecting expenses	2,846,536.82	2,355,014.64
Family control bonus	147,071.00	615,971.41
Others	1,300,233.01	3,734,605.06
	<u>29,380,807.14</u>	<u>11,490,010.07</u>

The non-operating expenses were RMB17,891,000 more than that of 2001, representing an increase of 155.71%. The main reasons are:

- (1) In the GMP renovation project of the Group, some fixed assets and construction work in progress were disposed, resulting in the increased loss of RMB10,155,000.
- (2) Provision for value impairment of fixed assets decreased by RMB11,802,000, including provision for the office building of the Group in Hong Kong Lippo Center with an amount of RMB7,109,752.25. As market value of this property declined continuously to HKD9,700,000.00 (equivalent to RMB10,282,000.00), lower than the net carrying amount by 7,109,752.25 as appraised by B.I Appraisals Limited. The Group accrued provision based on the difference.

## 42. Other cash received relating to operating activities

Item	Amount (RMB '000)
Discount revenue	61,379
Rental	24,824
Appropriation and subsidies from Guangzhou Finance Bureau for technical alteration	18,600
Renovation funds	3,400
Revenue from removal compensation	1,561

# NOTES TO THE ACCOUNT

## 43. Cash paid relating to other operating activities

Item	Amount (RMB '000)
Advertising	175,256
Labor insurance premium	72,245
Freight	46,553
Meeting expense	34,419
Leasing expenses	29,809
Travelling expense	26,286
Entertainment expense	21,343
Maintenance expense	14,023
Office expense	13,406
Technology development expense	13,104
Housing funds	11,722
Agency fee	7,655
Taxes	6,881
Unemployment insurance premium	4,817
Technology transfer fee	2,954
Insurance premium	2,880
Consulting fee	2,701

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

### 1. Other receivables

(1) Aging analysis of other receivables is as follows:

Aging	Closing balance			Accrual proportion
	Balance	Proportion	Provision	
Within 1 year	25,411,541.19	8.88%	—	0.00%
1 ~ 2 years	119,059,174.05	41.60%	—	0.00%
2 ~3 year	63,853,054.95	22.31%	—	0.00%
3 ~4 years	76,443,870.77	26.71%	—	0.00%
4~5 years	1,425,486.08	0.50%	401,634.83	28.18%
Over 5 years	800.00	—%	—	—
	<u>286,193,927.04</u>	100.00%	<u>401,634.83</u>	0.14%

  

Aging	Opening balance			Accrual proportion
	Balance	Proportion	Provision	
Within 1 year	154,365,790.44	45.37%	—	—
1 ~ 2 years	45,995,685.86	13.52%	—	—
2 ~3 years	52,974,298.49	15.57%	—	—
3 ~4 years	68,743,870.77	20.20%	—	—
4~5 years	18,180,613.18	5.34%	251,021.77	1.38%
Over 5 years	—	—	—	—
	<u>340,260,258.74</u>	100.00%	<u>251,021.77</u>	0.07%

Among the above other receivables, the debtors with 5% or above of the Company is Guangzhou Pharmaceutical Holding Company with the amount of RMB6,456,158.91.

# NOTES TO THE ACCOUNT

## 2. Long-term investments

Name of investee	Original investment	percentage equity held	Accumulated increase (decrease) of the equity	Closing balance
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	125,322,318.71	88.99%	38,263,499.38	163,585,818.09
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	156,209,321.79	90.36%	127,535,769.21	283,745,091.00
Guangzhou Chen Li Ji Chinese Medicine Factory	98,465,344.60	100.00%	84,858,235.21	183,323,579.81
Guangzhou Qi Xing Pharmaceutical Factory	126,775,482.62	100.00%	28,044,429.88	154,819,912.50
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,814.94	88.40%	(18,204,907.20)	83,284,907.74
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	144,298,132.51	87.77%	17,125,401.36	161,423,533.87
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	102,035,124.44	92.48%	21,435,728.33	123,470,852.77
Guangzhou Pharmaceutical Co., Ltd.	230,189,155.53	90.09%	108,269,771.73	338,458,927.26
Guangzhou Chinese Medicine Corporation	69,051,978.34	100.00%	24,305,426.65	93,357,404.99
Guangzhou Pharmaceutical Import & Export Corporation	17,957,328.73	100.00%	1,016,009.76	18,973,338.49
Guangzhou Huanye Medicine Manufacturing Co., Ltd.	15,331,246.76	59.70%	601,724.16	15,932,970.92
Guangzhou Baidi Bio-medicine Co., Ltd.	46,400,000.00	92.80%	(2,459,320.61)	43,940,679.39
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	45,000,000.00	90.00%	(7,153,097.71)	37,846,902.29
Nanhai Nanfang Packing Company Limited	30,000,000.00	21.42%	—	30,000,000.00
Jihua Pharmaceutical Apparatus Company Limited	2,000,000.00	24.00%	(610,333.47)	1,389,666.53
Guoyao Group Industrial Co., Ltd.	8,000,000.00	10.00%	—	8,000,000.00
Jinying Fund Management Co., Ltd.	20,000,000.00	20.00%	—	20,000,000.00
Everbright Bank	10,725,000.00	0.30%	—	10,725,000.00
<b>Total</b>	<b>1,349,250,248.97</b>		<b>423,028,336.68</b>	<b>1,772,278,585.65</b>

# NOTES TO THE ACCOUNT

## 3. Investment income

	2002	2001
Stock investment	(2,002,393.21)	3,157,607.59
Debt investment	—	—
Debenture investment	—	—
Loan on behalf	—	—
Other debt investment	—	—
Profit from associated companies or joint ventures	3,992,165.00	—
Net increase(decrease) of equity investment interest	176,646,830.31	149,117,494.23
Provision for investment	—	—
Income from disposal on equity investment	—	—
	<b>178,636,602.10</b>	<b>152,275,101.82</b>

## VIII. RELATED PARTY RELATIONSHIPS & TRANSACTIONS

### (1) Related parties with substantial control

Name	Registered address	Principle business	Relationship with the Company	Economic nature type	Legal 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
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	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 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	Liu Runfa
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	Bridge side, Jiang Villege, Baiyun District, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Chen Xiangzhi

# NOTES TO THE ACCOUNT

Name	Registered address	Principle business	Relationship with the Company	Economic nature type	Legal representative
Guangzhou Pharmaceutical Co., Ltd.	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
Guangzhou Huanye Medicine Manufacturing Co., Ltd.	195 Fangcun Dadao East, Fangcun District, Guangzhou	Wholesale & retail, research & development	Subsidiary	Company with limited liabilities	Feng Jinglin
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	134 Jiangnan Dadao Central, Haizhu District, Guangzhou	research & development	Subsidiary	Company with limited liabilities	Zhou Yuejin
Guangzhou Baidi Bio-medicine Co., Ltd.	Room 412, 134 Jiangnan Dadao Central, Haizhu District, Guangzhou	research & development	Subsidiary	Company with limited liabilities	Zhang Mingsen

## (2) Registered capital and its changes of related parties with substantial control

Unit: RMB '000

Name	Beginning balance	Increase during the year	Decrease during the year	Closing balance
Guangzhou Pharmaceutical Holdings Company Limited	1,007,700	—	—	1,007,700
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	77,170	—	—	77,170
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	—	—	166,000
Guangzhou Chen Li Ji Chinese Medicine Factory	90,000	4,000	—	94,000
Guangzhou Qi Xing Pharmaceutical Factory	82,420	—	—	82,420
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	86,230	—	—	86,230
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	65,440	—	—	65,440
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	106,380	—	—	106,380
Guangzhou Pharmaceutical Co., Ltd.	222,000	—	—	222,000
Guangzhou Chinese Medicine Corporation	65,000	4,700	—	69,700
Guangzhou Pharmaceutical Import & Export Corporation	15,000	—	—	15,000
Guangzhou Huanye Medicine Manufacturing Co., Ltd.	3,000	3,000	—	6,000
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	11,500	38,500	—	50,000
Guangzhou Baidi Bio-medicine Co., Ltd.	20,000	30,000	—	50,000

# NOTES TO THE ACCOUNT

## (3) Shareholding or equity interest held by related parties with substantial control and their changes

Unit: RMB'000

Name	Increase Beginning balance		Decrease during the year		during the year		Closing balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Guangzhou Pharmaceutical Holdings Company Limited	513,000	63.26	—	—	—	—	513,000	63.26
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	68,670	88.99	—	—	—	—	68,670	88.99
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	150,000	90.36	—	—	—	—	150,000	90.36
Guangzhou Chen Li Ji Chinese Medicine Factory	90,000	100	4,000	—	—	—	94,000	100
Guangzhou Qi Xing Pharmaceutical Factory	82,420	100	—	—	—	—	82,420	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	76,230	88.40	—	—	—	—	76,230	88.40
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	57,440	87.78	—	—	—	—	57,440	87.78
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	98,380	92.48	—	—	—	—	98,380	92.48
Guangzhou Pharmaceutical Co., Ltd.	200,000	90.09	—	—	—	—	200,000	90.09
Guangzhou Chinese Medicine Corporation	65,000	100	47,000	—	—	—	69,700	100
Guangzhou Pharmaceutical Import & Export Corporation	15,000	100	—	—	—	—	15,000	100
Guangzhou Huanye Medicine Manufacturing Co., Ltd.	—	—	3,580	59.70	—	—	3,580	59.70
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	10,350	90.00	34,650	—	—	—	45,000	90.00
Guangzhou Baidi Bio-medicine Co., Ltd.	16,400	82.00	30,000	10.80	—	—	46,400	92.80



## (4) Related party transactions

### 1. Relationship of related parties with no substantial control

Name	Relationship to the Company
Guangzhou Qiaoguang Pharmaceutical Factory	Fellow subsidiary
Guangzhou Mingxing Pharmaceutical Factory	Fellow subsidiary
Guangzhou Tianxin Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Hejigong Factory	Fellow subsidiary
Guangzhou Guanghua Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Pharmaceutical Machinery Factory	Fellow subsidiary
Guangzhou Sanitation Production Factory	Fellow subsidiary
Gunagzhou South-china Medical Appliance Co., Ltd.	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	Fellow subsidiary
Guangzhou Pharmaceutical Economic Development Company	Fellow subsidiary
Baolian Development Company Limited	Fellow subsidiary
Guangzhou Zhongfu Medical Company Limited	Associated company
Guangdong Xinhua Health Drinks Company Limited	Subsidiary
Guangzhou Baiyunshan Enterprise Group	Fellow subsidiary
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary
Guangzhou Baiyunshan Chinese Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary

### 2. Purchase of goods

Name	Unit: RMB '000	
	2002	2001
Guangzhou Qiaoguang Pharmaceutical Factory	15,798	4,436
Guangzhou Mingxing Pharmaceutical Factory	18,106	11,439
Guangzhou Tianxin Pharmaceutical Company Limited	6,259	5,556
Guangzhou Hejigong Factory	1,264	1,088
Guangzhou Guanghua Pharmaceutical Company Limited	26,480	15,027
Guangzhou Sanitation Production Factory	6,611	917
Gunagzhou South-china Medical Appliance Co., Ltd.	60	—
Guangzhou Pharmaceutical Goods and Supply Company	—	1,975
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	34,074	20,100
Baolian Development Company Limited	1,601	—
Guangzhou Baiyunshan Enterprise Group	—	658
Guangzhou Baiyunshan Pharmaceutical Factory	181	1,694
Guangzhou Baiyunshan Chinese Medicine Factory	306	540
Guangzhou Baiyunshan External Use Medicine Factory	150	408
	<b>110,890</b>	<b>63,838</b>

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

# NOTES TO THE ACCOUNT

## 3. Sale of goods

Name	Unit: RMB '000	
	2002	2001
Guangzhou Qiaoguang Pharmaceutical Factory	29,800	17,311
Guangzhou Mingxing Pharmaceutical Factory	397	536
Guangzhou Tianxin Pharmaceutical Company Limited	8,567	12,677
Guangzhou Hejigong Factory	—	24
Guangzhou Guanghua Pharmaceutical Company Limited	1,917	23
Guangzhou Sanitation Production Factory	2,488	—
Guangzhou Pharmaceutical Goods and Supply Company	—	3,350
Guangzhou Pharmaceutical Holdings Limited	—	—
Yingbang Marketing Co., Ltd.	29,767	—
Guangzhou Pharmaceutical Economic Development Company	288	491
Guangzhou Zhongfu Medical Company Limited	1,853	4
Guangzhou Pharmaceutical Corporation	—	7
Guangdong Xinhua Health Drinks Company Limited	631	—
Guangzhou Baiyunshan Enterprise Group	5,927	—
Guangzhou Baiyunshan Pharmaceutical Factory	5,045	—
Guangzhou Baiyunshan Chinese Medicine Factory	824	—
	<b>87,504</b>	<b>34,423</b>

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

# NOTES TO THE ACCOUNT

## 4. Receivables and payables

Unit: RMB '000

	Closing balance	Opening balance
Accounts Receivable:		
Guangzhou Qiaoguang Pharmaceutical Factory	7,237	2,571
Guangzhou Mingxing Pharmaceutical Factory	2	—
Guangzhou Tianxin Pharmaceutical Company Limited	918	1,273
Guangzhou Hejigong Factory	17	—
Guangzhou Guanghua Pharmaceutical Company Limited	337	—
Guangzhou Sanitation Production Factory	1,142	—
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	3,507	1,027
Guangzhou Pharmaceutical Economic Development Company	—	19
Guangzhou Zhongfu Medical Company Limited	477	2
Guangdong Xinhua Health Drinks Company Limited	1,380	—
Guangzhou Baiyunshan Enterprise Group	6,414	—
Guangzhou Baiyunshan Chinese Medicine Factory	370	—
Accounts Payable:		
Guangzhou Qiaoguang Pharmaceutical Factory	20	718
Guangzhou Mingxing Pharmaceutical Factory	59	88
Guangzhou Tianxi Pharmaceutical Company Limited	322	1,172
Guangzhou Hejigong Factory	127	91
Guangzhou Guanghua Pharmaceutical Company Limited	584	1,624
Guangzhou Sanitation Production Factory	345	252
Guangzhou Pharmaceutical Goods and Supply Company	—	5
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.	517	109
Baolian Development Company Limited	3,311	—
Guangzhou Baiyunshan Enterprise Group	—	90
Guangzhou Baiyunshan Pharmaceutical Factory	—	59
Guangzhou Baiyunshan Chinese Medicine Factory	24	81
Guangzhou Baiyunshan External Use Medicine Factory	—	67

# NOTES TO THE ACCOUNT

	<i>Unit: RMB '000</i>	
	<b>Closing balance</b>	<b>Opening balance</b>
Other receivables:		
Guangzhou Pharmaceutical Holdings Company Limited	<b>8,130</b>	6,706
Guangzhou Qiaoguang Pharmaceutical Factory	<b>197</b>	—
Guangzhou Pharmaceutical Machinery Factory	<b>33</b>	—
Guangzhou South-china Medical Appliance Co., Ltd.	<b>100</b>	—
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.	<b>5,030</b>	5,000
Baolian Development Company Limited	<b>5,796</b>	3,002
Guangdong Xinhua Health Drinks Company Limited	<b>3,400</b>	—
Other payables:		
Guangzhou Pharmaceutical Holdings Company Limited	<b>10,806</b>	25,704
Guangzhou Qiaoguang Pharmaceutical Factory	<b>36</b>	—
Guangzhou Pharmaceutical Goods and Supply Company	<b>1,024</b>	—

## 5. Provision or receipt of services

		<i>Unit: RMB '000</i>	
	<b>Note</b>	<b>2002</b>	2001
Service fee on staff housing	[1]	<b>463</b>	683
Comprehensive service fee	[2]	<b>522</b>	418
		<b>985</b>	1,101

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

*Note[2] Pursuant to the Composite Services Agreement entered into by the Company and the Holding on 1 September 1997, the Holding agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a fee equal to the Holding's total depreciation charges of the welfare facilities in the year ended 31 December 1997 plus a 10% annual increment based on fee rate of 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 the Holding on 1 September 1997, the Holding 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 public facilities and other outgoings which are payable based on the actual consumption. The Company shall pay such rental charges of RMB2,621,000 for the year (2001: RMB2,761,000)

## 7. License fee

Pursuant to the Trademark License Agreement entered into by the Company and the Holding on 1 September 1997, the Holding has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by the Holding for a term of 10 years commencing on the signature date. 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 RMB5,879,000 for the year. (2001: RMB5,512,000).

## 8. Prepaid rental

Pursuant to the Premises Agreement entered into by the Company and the Holding on 28 August 1998, the Holding 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 the Holding requires funds for constructing the new office building, the Company made an advance rental payment of RMB6,000,000 to the Holding during the year. The advance rental payment shall be used by the Holding exclusively for the construction of the new office building and shall offset the rental for the premises payable to the Holding by the Company. The lease term is expected to be not less than 10 years or until the advance rental payment is fully utilized, whichever is longer.

## IX. CONTINGENT EVENTS

Up to 31 December 2002, there are no material contingent events.

# NOTES TO THE ACCOUNT

## X. COMMITMENTS

Up to 31 December 2002, commitments of the Group are as following.

	<i>Unit: RMB '000</i>	
	<b>2002</b>	<b>2001</b>
Project payables with contract signed	<b>159,643</b>	76,174
Rental payables with contract signed	<b>49,675</b>	61,601
Investment fund of securities promised to purchase	<b>8,000</b>	—

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

Up to reporting date, there are no material non-adjusting events occurring after the balance sheet date which should be disclosed.

## XII. DEBT RESTRUCTURING EVENTS

Up to 31 December 2002, there are no debt restructuring events in the Group.

## XIII. NON-MONETARY TRANSACTIONS

Up to 31 December 2002, there are no non-monetary transactions in the Group.

## XIV. OTHER MATERIAL EVENTS

Pursuant to YSF [2000]1063 article issued by the Guangzhou Finance Bureau, in the year 2001, the listed companies in Guangzhou are levied enterprise income tax at the rate of 33% firstly, and then enjoy a tax refund privilege on part of local income which exceeds 15% (18%\*60%). Up to 31 December 2002, the Group has received the financial refund RMB23,086,572.02 for the enterprise income tax paid for the period, and offset the income tax of 2002 as required.

The aforesaid tax policy will be effective till 31 December 2001. The Group will pay enterprise income tax at the statutory rate (i.e., 33%) from 1 January 2002.

# 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 110 to 150 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 of 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 of the Group as at 31 December 2002 and of the Group's profit and cash flows 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, 21 March 2003

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Prepared in accordance with HK GAAP)

	Note	2002 Rmb'000	2001 Rmb'000
Turnover	2	5,943,823	5,334,029
Cost of sales		<u>(4,630,443)</u>	<u>(4,165,306)</u>
Gross profit		1,313,380	1,168,723
Other revenues	2	68,373	73,734
Distribution costs		(442,051)	(414,876)
Administrative expenses		(677,678)	(575,151)
Other operating expenses		<u>(13,735)</u>	<u>(7,320)</u>
Operating profit	3	248,289	245,110
Finance costs	4	(28,804)	(29,726)
Share of profits less losses of Jointly controlled entities		(23,435)	(9,906)
Associated companies		<u>310</u>	<u>509</u>
Profit before taxation		196,360	205,987
Taxation	5	<u>(89,846)</u>	<u>(105,084)</u>
Profit after taxation		106,514	100,903
Minority interests		<u>(11,953)</u>	<u>(5,035)</u>
Net profit for the year		<u>94,561</u>	<u>95,868</u>
Dividends	22(c)	<u>48,654</u>	<u>48,654</u>
Earnings per share	7	<u>Rmb0.117</u>	<u>Rmb0.119</u>



# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2002  
(Prepared in accordance with HK GAAP)

	Note	2002 Rmb'000	2001 Rmb'000
<b>Non-current assets</b>			
Intangible asset	9	69,017	79,463
Fixed assets	10	1,032,234	973,507
Construction in progress	11	236,616	174,212
Interests in joint ventures	13	6,208	29,832
Interests in associated companies	14	2,930	2,912
Investment securities	15	77,802	48,334
Deferred tax assets	24	23,387	—
		<u>1,448,194</u>	<u>1,308,260</u>
<b>Current assets</b>			
Inventories	17	848,519	833,328
Trade and other receivables	18	983,325	774,597
Trading securities	16	61,194	67,988
Bank balances and cash		1,019,903	893,796
		<u>2,912,941</u>	<u>2,569,709</u>
<b>Current liabilities</b>			
Trade and other payables	19	1,004,416	874,250
Taxation payable		48,774	28,911
Current portion of long-term liabilities	23	—	45,000
Short-term bank loans	20	555,340	387,680
		<u>1,608,530</u>	<u>1,335,841</u>
Net current assets		<u>1,304,411</u>	<u>1,233,868</u>
Total assets less current liabilities		<u>2,752,605</u>	<u>2,542,128</u>
<b>Financed by:</b>			
Share capital	21	810,900	810,900
Reserves	22	1,644,166	1,597,530
Shareholders' funds		2,455,066	2,408,430
Minority interests		144,884	123,698
<b>Non-current liabilities</b>			
Long-term liabilities	23	89,680	10,000
Employee benefits	26	62,975	—
		<u>2,752,605</u>	<u>2,542,128</u>

**Cai Zhixiang**  
Director

**Li Yimin**  
Director

# BALANCE SHEET

AS AT 31 DECEMBER 2002

(Prepared in accordance with HK GAAP)

	Note	2002 Rmb'000	2001 Rmb'000
<b>Non-current assets</b>			
Intangible asset	9	1,701	1,944
Fixed assets	10	19,620	27,451
Construction in progress	11	4,330	—
Investments in subsidiaries	12	1,484,435	1,395,154
Investment securities	15	70,725	42,225
		<u>1,580,811</u>	<u>1,466,774</u>
<b>Current assets</b>			
Other receivables	18	342,543	360,719
Trading securities	16	61,194	3,052
Bank balances and cash		204,624	333,583
		<u>608,361</u>	<u>697,354</u>
<b>Current liabilities</b>			
Other payables	19	20,492	13,292
Taxation payable		407	317
		<u>20,899</u>	<u>13,609</u>
Net current assets		<u>587,462</u>	<u>683,745</u>
Total assets less current liabilities		<u>2,168,273</u>	<u>2,150,519</u>
<b>Financed by:</b>			
Share capital	21	810,900	810,900
Reserves	22	1,357,373	1,339,619
<b>Cai Zhixiang</b> Director	<b>Li Yimin</b> Director	<u>2,168,273</u>	<u>2,150,519</u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Prepared in accordance with HK GAAP)

	Note	2002 Rmb'000	2001 Rmb'000
Total equity as at 1 January		2,408,430	1,598,817
Profit for the year	22	94,561	95,868
Dividends	22	(48,654)	(24,327)
Issue of shares	21	—	78,000
Premium on issue of shares	22	—	686,400
Share issue expenses	22	729	(26,328)
Total equity as at 31 December		<u>2,455,066</u>	<u>2,408,430</u>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

(Prepared in accordance with HK GAAP)

	Note	2002 Rmb'000	2001 Rmb'000
Cash generated from operations	25(a)	304,679	160,378
Interest paid		(27,918)	(30,504)
Taxation paid-PRC enterprise income tax		(94,200)	(110,774)
Net cash generated from operating activities		182,561	19,100
Investing activities			
Purchase of fixed assets		(100,936)	(68,857)
Payments for construction in progress		(134,255)	(80,661)
Sale of fixed assets		11,072	411
Interest received		13,475	22,523
Purchase of a subsidiary, net of cash acquired	25(c)	2,285	—
Dividends received from investments		4,652	8,728
Dividends received from an associated company		182	392
Sale of trading securities		3,151	—
Purchase of trading securities		—	(67,988)
Proceeds received from disposal of a joint venture		173	—
Purchase of investment securities		(29,468)	(15,331)
Net cash used in investing activities		(229,669)	(200,783)
Net cash used before financing activities		(47,108)	(181,683)
Financing activities	25(b)		
Issue of shares		—	764,400
Share issue expenses		—	(26,328)
Capital contribution from minority shareholders		6,545	13,628
New loans payable		662,310	451,010
Repayment of amounts borrowed		(461,820)	(585,330)
Dividends paid		(48,654)	(24,327)
Dividends paid to minority shareholders		(6,285)	(5,907)
Net cash from financing activities		152,096	587,146
Net increase in cash and cash equivalents		104,988	405,463
Cash and cash equivalents at 1 January		893,796	488,333
Cash and cash equivalents at 31 December	25(d)	998,784	893,796

# 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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 34(revised)	: Employee benefits

The effect of adopting these new policies is set out below.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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 unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and 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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Group accounting (continued)

#### (ii) 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.

#### (iii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, 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.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

#### (iv) 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 balance sheet 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 whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (c) Intangibles

#### (i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/ joint venture/ associated company at the date of acquisition.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Intangibles (continued)

#### (i) Goodwill/negative goodwill (continued)

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5-10 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss immediately.

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition.

#### (ii) Staff quarters reform costs

Staff quarters reform costs are expenditures incurred by the Group prior to year 2000 in relation to purchases of staff quarters by its employees. Such costs are recognised as an assets. These costs are amortised on a straight-line basis over a period of not more than 10 years to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised.

#### (iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. 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. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Intangibles (continued)

#### (iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

### (d) Fixed assets

#### (i) 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 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.

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.

#### (ii) Property, plant and equipment

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

Amortisation of land use rights is calculated to write off their cost less accumulated impairment losses 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 less accumulated impairment losses 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 shorter, after taking into account their estimated residual value.

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write off their cost less accumulated impairment losses 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 and office equipments	5 - 10 years



# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) Fixed assets (continued)

#### (iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction and property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than 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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

#### (iv) Construction in progress

Construction in progress is stated at cost less impairment losses. 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.

### (e) Government grants

Government grants and subsidies awarded for the purpose of giving financial support to the Group rather than as an incentive to undertake specific expenditures are recognised as income in the period in which the Group qualifies to receive it.

### (f) Operating lease

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)

### (g) Investments in securities

#### (i) Investment securities

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

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (ii) Trading securities

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

### (h) Inventories

Inventories comprise stocks and work in progress and 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.

### (i) 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.

### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (k) Employee benefits

#### (i) Pension obligation

The Group's contributions to the defined contribution retirement scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered by the employees.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (k) Employee benefits (continued)

#### (ii) Housing benefit

The Group's contributions to the housing fund scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered by the employees.

Costs of the housing allowance scheme designed and implemented by the Group are expensed when a legal or constructive obligation is established.

#### (iii) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme organised by the Guangzhou People's Municipal Government for existing employees are expensed when services are rendered by the employees.

Further information of the Group's employee benefits is set out in Note 26.

### (l) 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.

### (m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) 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.

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.

Promotional income from supplier is recognised when the right to receive payment is established.

### (o) 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.

### (p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and construction in progress, including additions resulting from acquisition through purchase of a subsidiary.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of Chinese Patent Medicine ("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:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Turnover:		
Sales of goods	<u>5,943,823</u>	<u>5,334,029</u>
Other revenues:		
Government grants and subsidies (Note)	8,432	3,061
Interest income	13,475	22,523
Gross rental income from investment properties	21,347	20,932
Gross rental income from other properties	11,060	8,608
Promotional income from suppliers	8,556	8,755
Royalty income	851	1,127
Income from unlisted investments	4,652	8,728
	<u>68,373</u>	<u>73,734</u>
Total revenues	<u>6,012,196</u>	<u>5,407,763</u>

Note:

*Flood prevention contribution of Rmb4,832,000 (2001: Nil) has been refunded as an incentive to a subsidiary from local tax authority.*

*An amount of Rmb3,600,000 payable to local government (2001: Nil) has been waived as subsidies to a subsidiary. According to the approval documents, the Group is required to transfer from profit after taxation an amount equal to the subsidies entitled to the capital reserve account (Note 22).*

*The government grants and subsidies of 2001 were subsidies received from local government for technical development which were also transferred to the 2001 capital reserve account according to the relevant approval documents.*

The Group is organised into the following business segments:

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

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

No geographical analysis of turnover and operating profit is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributed to markets outside the PRC.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31 December 2002					Group RMB'000
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export RMB'000	Elimination RMB'000	
Turnover						
External	1,743,449	3,794,686	307,501	98,187	—	5,943,823
Internal	25,585	250,757	8,944	28,280	(313,566)	—
Total	<u>1,769,034</u>	<u>4,045,443</u>	<u>316,445</u>	<u>126,467</u>	<u>(313,566)</u>	<u>5,943,823</u>
Segment results	<u>194,804</u>	<u>74,691</u>	<u>7,653</u>	<u>2,670</u>	<u>(11,625)</u>	268,193
Unallocated costs						(19,904)
Operating profit						248,289
Finance costs						(28,804)
Share of profits less losses of						
Jointly controlled entities	(23,435)					(23,435)
Associated companies	310					310
Profit before taxation						196,360
Taxation						(89,846)
Profit after taxation						106,514
Minority interests						(11,953)
Net profit						<u>94,561</u>
Segment assets	1,976,902	1,669,439	180,333	80,012	(271,614)	3,635,072
Investments in joint ventures	6,208					6,208
Investments in associated companies	2,930					2,930
Unallocated assets						716,925
Total assets						<u>4,361,135</u>
Segment liabilities	504,996	1,322,774	65,997	69,765	(271,614)	1,691,918
Unallocated liabilities						69,267
Total liabilities						<u>1,761,185</u>
Capital expenditure	219,521	26,174	6,487	311		252,493
Depreciation	67,337	16,295	5,408	201		89,241
Amortisation charge	7,401	3,015	—	30		10,446
Impairment charge	18,099	1,930	—	—		20,029

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31 December 2001					Group RMB'000
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export RMB'000	Elimination RMB'000	
Turnover						
External	1,634,887	3,281,570	357,170	60,402	—	5,334,029
Internal	29,711	274,911	—	—	(304,622)	—
Total	<u>1,664,598</u>	<u>3,556,481</u>	<u>357,170</u>	<u>60,402</u>	<u>(304,622)</u>	<u>5,334,029</u>
Segment results	<u>176,984</u>	<u>66,287</u>	<u>7,449</u>	<u>1,513</u>	<u>(10,970)</u>	241,263
Unallocated costs						3,847
Operating profit						245,110
Finance costs						(29,726)
Share of profits less losses of						
Jointly controlled entities	(9,906)					(9,906)
Associated companies	509					509
Profit before taxation						205,987
Taxation						(105,084)
Profit after taxation						100,903
Minority interests						(5,035)
Net profit						<u>95,868</u>
Segment assets	1,597,486	1,253,447	183,256	64,784	(85,017)	3,013,956
Investments in joint ventures	29,832					29,832
Investments in associated companies	2,912					2,912
Unallocated assets						831,269
Total assets						<u>3,877,969</u>
Segment liabilities	340,910	935,140	75,382	47,746	(85,017)	1,314,161
Unallocated liabilities						31,680
Total liabilities						<u>1,345,841</u>
Capital expenditure	84,230	56,706	8,364	218		149,518
Depreciation	58,882	24,457	2,101	239		85,679
Amortisation charge	7,401	3,015	—	30		10,446
Impairment charge	<u>37,947</u>	<u>9,807</u>	<u>2,365</u>	<u>—</u>		<u>50,119</u>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 3 OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2002 Rmb'000	2001 Rmb'000
Charging:		
Depreciation and amortisation of fixed assets	89,241	85,679
Amortisation of intangible asset	10,446	10,446
Impairment charge (Note)	20,029	50,119
Outgoings in respect of investment properties	4,037	3,971
Outgoings in respect of other properties	2,212	—
Loss on disposal of fixed assets	3,696	655
Loss on disposal of a joint venture	16	—
Realised losses on disposal of trading securities	1,929	—
Unrealised losses on trading securities	1,714	—
Research and development costs	26,500	17,624
Auditors' remuneration	3,187	3,400
Staff costs:		
Pension benefit (Note 26(a))	50,537	49,022
Housing fund (Note 26(b))	12,066	9,379
Medical insurance (Note 26(c))	97,233	26,414
Housing allowances (Note 26(d))	7,817	—
Salaries, wages and other staff benefits	412,808	376,147
Operating leases for land and buildings	27,315	26,327
Crediting:		
Write off negative goodwill arising on increase in interest of subsidiaries	—	4,526
Reversal of write-down of inventories	785	—

Note: Impairment charge included

	Rmb'000	Rmb'000
Fixed assets (Note 10)	20,029	38,191
Construction in progress (Note 11)	—	11,928
	<u>20,029</u>	<u>50,119</u>

Impairment charge mainly arose as a result of technology upgrade, modernisation of production facilities and significant decline in market value of the assets.



# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 4 FINANCE COSTS

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Interest on bank loans and overdrafts	27,918	30,504
Other incidental borrowing costs	1,244	513
Total borrowing costs incurred	29,162	31,017
Less: interest capitalised in construction in progress	(358)	(1,291)
	<u>28,804</u>	<u>29,726</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.49% (2001: 5.94%).

## 5 TAXATION

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
The amount of taxation charged to the consolidated profit and loss account represents:		
Current taxation		
PRC enterprise income tax	113,123	104,912
Deferred taxation ( Note 24)	(23,387)	—
	<u>89,736</u>	<u>104,912</u>
Share of taxation attributable to		
Jointly controlled entities	—	—
Associated companies	110	172
	<u>89,846</u>	<u>105,084</u>

The PRC enterprise income tax has been provided at the rate of 33% (2001: 33%) on the estimated assessable profit for the year.

Pursuant to a document [2000] 1063 issued by Guangzhou Finance Bureau, enterprise income tax of listed companies in the Guangzhou City in 2001 was initially based on the unified tax rate of 33% and the portion over 15% of the tax attributable to local government (i.e., 60% of the 18% of tax) was refunded. Accordingly, the effective income tax refund rate of 2001 was 10.8%. The Company and its major subsidiaries were effectively taxed at 22.2% in the year 2001.

An amount of Rmb23,087,000 (2001: Rmb13,016,000) relating to the said tax refund for tax paid during the second half of 2001 has been received and net off against the tax charge for the year.

There is no such income tax refund for the year 2002.

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.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholder is dealt with in the accounts of the Company to the extent of Rmb42,910,000 (2001: Rmb54,169,000).

## 7 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2002 is based on the net profit of Rmb94,561,000 (2001: Rmb95,868,000) and the 810,900,000 shares (2001: 808,976,712 shares-weighted average) in issue.

## 8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors', Supervisors' and Senior Management's emoluments

The aggregate amounts of emoluments payable to Directors, Supervisors and Senior Management of the Company during the year are as follows:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Fees		
Executive directors	—	—
Non-executive directors	313	313
Supervisors	—	—
Other emoluments for executive directors		
Basic salaries, allowances and benefits in kind	865	1,398
Bonuses	1,863	585
Retirement benefits	49	41
Other emoluments for supervisors		
Basic salaries, allowances and benefits in kind	273	278
Bonuses	288	74
Retirement benefits	12	10
Other emoluments for senior management		
Basic salaries, allowances and benefits in kind	383	428
Bonuses	875	363
Retirement benefits	26	31
	<u>4,947</u>	<u>3,521</u>

The emoluments for each of the Company's Directors (executive and non-executive), Supervisors and Senior Management, totalling 16 individuals (2001: 16 individuals) are within the band of Nil to Rmb1,000,000 for the years ended 31 December 2002 and 31 December 2001.

No Director, Supervisor or Senior Management waived emoluments in respect of the years ended 31 December 2002 and 31 December 2001.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2001: three) individuals during the year are as follows:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Basic salaries, allowances and benefits in kind	456	354
Bonuses	1,118	1,542
Retirement benefits	25	22
	<u>1,599</u>	<u>1,918</u>

The emolument fell within the following band:

	Number of individuals	
Emolument	2002	2001
Nil - Rmb1,000,000	1	3
Rmb1,000,001 - Rmb1,500,000	1	—
	<u>1</u>	<u>—</u>

## 9 INTANGIBLE ASSET

	Group		Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
<b>Staff quarters reform costs</b>				
Net book value at 1 January	79,463	89,909	1,944	2,187
Amortisation charge	(10,446)	(10,446)	(243)	(243)
Net book value at 31 December	<u>69,017</u>	<u>79,463</u>	<u>1,701</u>	<u>1,944</u>
At 31 December				
Cost	104,467	104,467	2,524	2,524
Accumulated amortisation	(35,450)	(25,004)	(823)	(580)
Net book value	<u>69,017</u>	<u>79,463</u>	<u>1,701</u>	<u>1,944</u>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 10 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>
<b>Cost or valuation</b>						
At 1 January 2002	8,712	123,275	650,024	575,951	74,232	1,432,194
Additions	—	2,895	55,837	36,406	5,798	100,936
Acquisition of a subsidiary	—	—	10,190	6,271	841	17,302
Transfer from construction in progress	—	—	56,912	13,884	1,418	72,214
Disposals	—	(17,601)	(14,425)	(27,635)	(5,431)	(65,092)
<b>At 31 December 2002</b>	<b>8,712</b>	<b>108,569</b>	<b>758,538</b>	<b>604,877</b>	<b>76,858</b>	<b>1,557,554</b>
<b>Accumulated depreciation and amortisation</b>						
At 1 January 2002	—	22,026	122,209	271,529	42,923	458,687
Charge for the year	—	2,248	32,111	47,256	7,626	89,241
Acquisition of a subsidiary	—	—	3,464	4,022	201	7,687
Impairment charge (Note 3)	—	—	9,003	11,026	—	20,029
Disposals	—	(9,521)	(6,867)	(29,786)	(4,150)	(50,324)
<b>At 31 December 2002</b>	<b>—</b>	<b>14,753</b>	<b>159,920</b>	<b>304,047</b>	<b>46,600</b>	<b>525,320</b>
<b>Net book value</b>						
<b>At 31 December 2002</b>	<b>8,712</b>	<b>93,816</b>	<b>598,618</b>	<b>300,830</b>	<b>30,258</b>	<b>1,032,234</b>
At 31 December 2001	8,712	101,249	527,815	304,422	31,309	973,507

The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:

At cost	—	108,569	758,538	604,877	76,858	1,548,842
At 2002 valuation	8,712	—	—	—	—	8,712
	<b>8,712</b>	<b>108,569</b>	<b>758,538</b>	<b>604,877</b>	<b>76,858</b>	<b>1,557,554</b>

The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:

At cost	—	123,275	650,024	575,951	74,232	1,423,482
At 2001 valuation	8,712	—	—	—	—	8,712
	<b>8,712</b>	<b>123,275</b>	<b>650,024</b>	<b>575,951</b>	<b>74,232</b>	<b>1,432,194</b>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 10 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>
<b>Cost</b>				
At 1 January 2002	23,007	9,617	487	33,111
Additions	1,021	1,470	175	2,666
Disposals	—	(117)	—	(117)
<b>At 31 December 2002</b>	<b>24,028</b>	<b>10,970</b>	<b>662</b>	<b>35,660</b>
<b>Accumulated depreciation</b>				
At 1 January 2002	2,838	2,737	85	5,660
Charge for the year	1,221	2,058	80	3,359
Impairment charge (Note 3)	7,110	—	—	7,110
Disposals	—	(89)	—	(89)
<b>At 31 December 2002</b>	<b>11,169</b>	<b>4,706</b>	<b>165</b>	<b>16,040</b>
<b>Net book value</b>				
<b>At 31 December 2002</b>	<b>12,859</b>	<b>6,264</b>	<b>497</b>	<b>19,620</b>
At 31 December 2001	20,169	6,880	402	27,451

All of the Group's investment properties and buildings are located in the PRC, except for a property with a net book value of Rmb10,282,000 (2001: Rmb17,957,000) which is located in Hong Kong. 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 of 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 2002. Mr. K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

At 31 December 2002, the net book value of fixed assets pledged as security for the Group's bank loans amounted to Rmb118,030,000 (2001: Rmb137,606,000).

## 11 CONSTRUCTION IN PROGRESS

	Group		Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
At 1 January	174,212	234,437	—	—
Additions	134,255	80,661	4,330	—
Acquisition of a subsidiary	363	—	—	—
Transfer to fixed assets	(72,214)	(128,958)	—	—
Impairment charge (Note 3)	—	(11,928)	—	—
<b>At 31 December</b>	<b>236,616</b>	<b>174,212</b>	<b>4,330</b>	<b>—</b>

Construction in progress included interest capitalised amounted to Rmb13,487,000 (2001: Rmb17,392,000).

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	Rmb'000	Rmb'000
Unlisted shares, at cost	<u>1,484,435</u>	<u>1,395,154</u>

Particulars of principal subsidiaries are set out in Note 29.

## 13 INTERESTS IN JOINT VENTURES

Jointly controlled entities

	Group	
	2002	2001
	Rmb'000	Rmb'000
Share of net assets	<u>6,208</u>	<u>29,832</u>
Unlisted shares, at cost	<u>39,644</u>	<u>40,395</u>

Details of the jointly controlled entity as at 31 December 2002 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Ownership interest	Percentage of Voting power	Profit/loss sharing
Guangdong Xinhua Health Drinks Co., Ltd.	PRC	Production of health care drinks in the PRC	53.0	42.9	47.1

## 14 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2002	2001
	Rmb'000	Rmb'000
Share of net assets	<u>2,930</u>	<u>2,912</u>
Unlisted shares, at cost	<u>2,338</u>	<u>2,338</u>

At 31 December 2002 the Group held shares in the following associated companies:

Name	Particulars of equity held	Place of establishment/ registration	% of equity interest	Principal activities
Guangzhou Zhong Fu Medical Co., Ltd.	Registered capital: Rmb400,000	PRC	50.0	Production of Chinese patent medicine
PT. Purusa Bhakti	Ordinary shares of US\$1 each	Indonesia	45.6	Dormant
Ming Tai Enterprises (Thailand) Ltd.	Ordinary shares of Baht1 each	Thailand	35.1	Dormant

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 15 INVESTMENT SECURITIES

	Group		Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Unlisted shares	<u>77,802</u>	<u>48,334</u>	<u>70,725</u>	<u>42,225</u>

At 31 December 2002 and 2001, all investment securities were stated at cost.

## 16 TRADING SECURITIES

	Group		Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Equity securities, listed in the PRC	2,742	4,306	2,742	3,052
Other unlisted investments	<u>58,452</u>	<u>63,682</u>	<u>58,452</u>	<u>—</u>
	<u>61,194</u>	<u>67,988</u>	<u>61,194</u>	<u>3,052</u>
Market value of listed investments	<u>2,742</u>	<u>4,306</u>	<u>2,742</u>	<u>3,052</u>

## 17 INVENTORIES

	Group	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Raw materials	106,295	103,419
Work-in-progress	35,134	41,192
Finished goods	85,135	59,841
Merchandise	613,929	609,201
Production supplies	<u>8,026</u>	<u>19,675</u>
	<u>848,519</u>	<u>833,328</u>

At 31 December 2002 and 2001, all inventories were stated at cost.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Trade receivables (Note a)	689,976	520,677	—	—
Other receivables and prepayments	274,599	234,405	5,593	26,279
Due from				
Joint ventures (Note b)	3,400	3,800	—	—
Associated companies (Note b)	3,420	4,729	—	—
Subsidiaries (Note c)	—	—	271,013	308,594
Fellow subsidiaries (Note b)	11,930	10,986	9,186	5,136
Dividend receivable from subsidiaries	—	—	56,751	20,710
	<b>983,325</b>	<b>774,597</b>	<b>342,543</b>	<b>360,719</b>

- (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 2002 is as follows:

	Group	
	2002 Rmb'000	2001 Rmb'000
Within 6 months	646,977	480,276
6 months to 1 year	39,972	33,535
1 year to 2 years	3,027	6,866
	<b>689,976</b>	<b>520,677</b>

Provision is made for long outstanding and doubtful debts based on reviews of the status of trade receivables outstanding.

- (b) The amounts due are unsecured, interest free and repayable on demand.
- (c) The amounts due are unsecured, interest bearing at commercial market rate and repayable on demand.

## 19 TRADE AND OTHER PAYABLES

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Trade payables (Note a)	663,105	561,259	—	—
Due to subsidiaries (Note b)	—	—	344	—
Due to holding company (Note b)	14,099	31,637	—	—
Other payables and accrued charges	327,212	281,354	20,148	13,292
	<b>1,004,416</b>	<b>874,250</b>	<b>20,492</b>	<b>13,292</b>



# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 19 TRADE AND OTHER PAYABLES (continued)

(a) The ageing analysis of the trade payables at 31 December 2002 is as follows:

	Group	
	2002 Rmb'000	2001 Rmb'000
Within 1 year	617,433	519,385
1 year to 2 years	13,695	15,649
Over 2 years	31,977	26,225
	<u>663,105</u>	<u>561,259</u>

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

## 20 BANK LOANS

	Group	
	2002 Rmb'000	2001 Rmb'000
Secured	155,000	381,320
Unsecured	400,340	6,360
	<u>555,340</u>	<u>387,680</u>

## 21 SHARE CAPITAL

	Registered, issued and fully paid							
	State Shares		H Shares		A Shares		Total	
	No. of shares	Rmb'000	No. of shares	Rmb'000	No. of shares	Rmb'000	No. of shares	Rmb'000
At 1 January 2001	513,000,000	513,000	219,900,000	219,900	—	—	732,900,000	732,900
Issue of shares	—	—	—	—	78,000,000	78,000	78,000,000	78,000
At 31 December 2001	<u>513,000,000</u>	<u>513,000</u>	<u>219,900,000</u>	<u>219,900</u>	<u>78,000,000</u>	<u>78,000</u>	<u>810,900,000</u>	<u>810,900</u>
At 31 December 2002	<u>513,000,000</u>	<u>513,000</u>	<u>219,900,000</u>	<u>219,900</u>	<u>78,000,000</u>	<u>78,000</u>	<u>810,900,000</u>	<u>810,900</u>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 22 RESERVES

	<b>Group</b>						<b>Total</b>
	<b>Share premium</b>	<b>Capital reserve</b>	<b>Statutory surplus reserve</b>	<b>Statutory public welfare</b>	<b>Discretionary surplus reserve</b>	<b>Retained earnings</b>	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January 2001, as previously reported	120,333	437,278	102,762	68,211	23,101	89,905	841,590
Effect of adopting SSAP 9 (Revised)	—	—	—	—	—	24,327	24,327
At 1 January 2001, as restated	120,333	437,278	102,762	68,211	23,101	114,232	865,917
2000 Final dividend paid	—	—	—	—	—	(24,327)	(24,327)
Net profit for the year	—	—	—	—	—	95,868	95,868
Transfer to reserves	—	2,873	26,763	24,547	22,156	(76,339)	—
Premium on issue of shares	686,400	—	—	—	—	—	686,400
Share issue expenses	(26,328)	—	—	—	—	—	(26,328)
Transfer to retained earnings	—	—	(9,123)	—	(7,396)	16,519	—
At 31 December 2001	<u>780,405</u>	<u>440,151</u>	<u>120,402</u>	<u>92,758</u>	<u>37,861</u>	<u>125,953</u>	<u>1,597,530</u>
Representing:-							
2001 Final dividend proposed (Note c)						48,654	
Others						77,299	
Retained earnings as at 31 December 2001						<u>125,953</u>	
The Company and subsidiaries	780,405	440,151	120,402	92,758	37,861	139,777	1,611,354
Jointly controlled entities	—	—	—	—	—	(12,167)	(12,167)
Associated companies	—	—	—	—	—	(1,657)	(1,657)
	<u>780,405</u>	<u>440,151</u>	<u>120,402</u>	<u>92,758</u>	<u>37,861</u>	<u>125,953</u>	<u>1,597,530</u>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 22 RESERVES (continued)

	Group						
	Share premium	Capital reserve (Note a)	Statutory surplus reserve (Note b)	Statutory public welfare (Note b)	Discretionary surplus reserve (Note b)	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2002	780,405	440,151	120,402	92,758	37,861	125,953	1,597,530
2001 Final dividend paid	—	—	—	—	—	(48,654)	(48,654)
Profit for the year	—	—	—	—	—	94,561	94,561
Transfer to reserves	—	3,204	40,233	16,971	28,205	(88,613)	—
Overprovision of share issue expenses	729	—	—	—	—	—	729
<b>At 31 December 2002</b>	<b>781,134</b>	<b>443,355</b>	<b>160,635</b>	<b>109,729</b>	<b>66,066</b>	<b>83,247</b>	<b>1,644,166</b>
Representing:-							
2002 Final dividend proposed (Note c)						48,654	
Others						34,593	
Retained earnings as at 31 December 2002						<b>83,247</b>	
The Company and subsidiaries	781,134	443,355	160,635	109,729	66,066	120,196	1,681,115
Jointly controlled entities	—	—	—	—	—	(35,602)	(35,602)
Associated companies	—	—	—	—	—	(1,347)	(1,347)
	<b>781,134</b>	<b>443,355</b>	<b>160,635</b>	<b>109,729</b>	<b>66,066</b>	<b>83,247</b>	<b>1,644,166</b>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 22 RESERVES (continued)

	Company					
	Share premium	Capital reserve (Note a)	Statutory surplus Reserve (Note b)	Statutory public welfare (Note b)	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2001, as previously reported	120,333	394,259	46,723	41,545	—	602,860
Effect of adopting SSAP 9 (Revised)	—	—	—	—	24,327	24,327
At 1 January 2001, as restated	120,333	394,259	46,723	41,545	24,327	627,187
2000 Final dividend paid	—	—	—	—	(24,327)	(24,327)
Profit for the year	—	—	—	—	76,687	76,687
Transfer to reserves	—	—	15,012	7,506	(22,518)	—
Premium on issue of shares	686,400	—	—	—	—	686,400
Share issue expenses	(26,328)	—	—	—	—	(26,328)
Transfer to retained earnings	—	—	(4,639)	(4,640)	9,279	—
<b>At 31 December 2001</b>	<b>780,405</b>	<b>394,259</b>	<b>57,096</b>	<b>44,411</b>	<b>63,448</b>	<b>1,339,619</b>
Representing:-						
2001 Final dividend proposed (Note c)					48,654	
Others					14,794	
Retained earnings as at 31 December 2001					63,448	
At 1 January 2002	780,405	394,259	57,096	44,411	63,448	1,339,619
2001 Final dividend paid	—	—	—	—	(48,654)	(48,654)
Profit for the year	—	—	—	—	65,679	65,679
Transfer to reserves	—	—	15,179	7,590	(22,769)	—
Reversal of overprovision of share issue expenses	729	—	—	—	—	729
<b>At 31 December 2002</b>	<b>781,134</b>	<b>394,259</b>	<b>72,275</b>	<b>52,001</b>	<b>57,704</b>	<b>1,357,373</b>
Representing:-						
2002 Final dividend proposed (Note c)					48,654	
Others					9,050	
Retained earnings as at 31 December 2002					57,704	

### (a) Capital reserve

The transfers from retained earnings represented government grants and subsidies received, net of minority interests (Note 2).

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 22 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 PRC Companies are required to transfer 10% of their profit after taxation, in accordance with PRC accounting standards and systems, 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.

#### *Statutory public welfare reserve*

The PRC Companies are required to transfer 5% to 10% of their profit after taxation calculated in accordance with PRC accounting standards and systems to the statutory public welfare fund. The statutory public welfare fund can only be used for capital expenditure on employees' collective welfare facilities. The fund is non-distributable other than in liquidation.

#### *Discretionary surplus reserve*

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

### (c) Dividends

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Final, proposed, of Rmb0.06 (2001 : Rmb0.06) per share	<u>48,654</u>	<u>48,654</u>

*Note:*

*At a meeting held on 21 March 2003 the directors declared a final dividend of Rmb0.06 per ordinary share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.*

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 22 RESERVES (continued)

### (d) 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 PRC accounting standards and systems and the amount determined in accordance with HK GAAP. The amount of retained earnings available for distribution determined in accordance with HK GAAP as at 31 December 2002 was Rmb57,704,000 (2001: Rmb63,448,000).

## 23 LONG-TERM LIABILITIES

	Group	
	2002 Rmb'000	2001 Rmb'000
Bank loans		
Secured	32,000	55,000
Unsecured	57,680	—
	<u>89,680</u>	55,000
Current portion of long-term liabilities:	—	(45,000)
	<u>89,680</u>	<u>10,000</u>
The analysis of the above bank loans is as follows:		
Wholly repayable within five years	89,680	55,000
Not wholly repayable within five years	—	—
	<u>89,680</u>	<u>55,000</u>
At 31 December 2002, the Group's bank loans were repayable as follows:		
Within one year	—	45,000
In the second year	—	10,000
In the third to fifth year	89,680	—
After the fifth year	—	—
	<u>89,680</u>	<u>55,000</u>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 24 DEFERRED TAXATION

	2002 <i>Rmb'000</i>	Group 2001 <i>Rmb'000</i>
At 1 January	—	—
Transfer from profit and loss account	<u>23,387</u>	<u>—</u>
At 31 December	<u>23,387</u>	<u>—</u>
Provided for in respect of : Provision for employee benefits	<u>23,387</u>	<u>—</u>

## 25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to cash generated from operations

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Operating profit	219,485	215,384
Amortisation of intangible asset	10,446	10,446
Depreciation and amortisation charges	89,241	85,679
Impairment charge	20,029	50,119
Loss on disposal of a joint venture	16	—
Realised losses on disposal of trading securities	1,929	—
Unrealised losses on trading securities	1,714	—
Loss on disposal of fixed assets	3,696	655
Interest income	(13,475)	(22,523)
Interest expenses	27,918	30,504
Income from unlisted investments	(4,652)	(8,728)
Written off of negative goodwill arising on increase in interest of subsidiaries	—	(4,526)
Operating profit before working capital charges	<u>356,347</u>	<u>357,010</u>
Increase in inventories	(11,810)	(44,230)
Increase in trade and other receivables	(200,234)	(96,284)
Increase/(decrease) in trade and other payables	97,401	(56,118)
Increase in employee benefits	<u>62,975</u>	<u>—</u>
Cash generated from operations	<u>304,679</u>	<u>160,378</u>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Bank loans and other long-term liabilities	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Balance at 1 January	1,591,305	853,233	123,698	115,468	442,680	577,000
Proceeds from issue of shares	—	78,000	—	—	—	—
Share premium	—	660,072	—	—	—	—
Reversal of overprovision of share issue expenses	729	—	—	—	—	—
Acquisition of a subsidiary	—	—	8,973	—	1,850	—
Capital contribution by minority shareholders	—	—	6,545	13,628	—	—
Minority interests' in share of profits	—	—	11,953	5,035	—	—
Cash inflows/(outflows) from financing	—	—	—	—	200,490	(134,320)
Dividends paid to minority shareholders	—	—	(6,285)	(5,907)	—	—
Changes arising from increase in interests in subsidiaries	—	—	—	(4,526)	—	—
Balance at 31 December	<u>1,592,034</u>	<u>1,591,305</u>	<u>144,884</u>	<u>123,698</u>	<u>645,020</u>	<u>442,680</u>



# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Purchase of a subsidiary

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Net assets acquired		
Fixed assets	9,615	—
Construction in progress	363	—
Inventories	3,381	—
Trade and other receivables	8,494	—
Bank balances and cash	17,616	—
Trade and other payables	(13,315)	—
Bank loans	(1,850)	—
Minority shareholders' interests	(8,973)	—
	<u>15,331</u>	<u>—</u>
Satisfied by		
Cash	<u>15,331</u>	<u>—</u>

The subsidiary acquired during the year contributed Rmb133,000 to the Group's net operating cash flows, paid Rmb600,000 in respect of the net returns on investments and servicing of finance, paid Rmb142,000 in respect of taxation and utilised Rmb6,371,000 for investing activities.

Analysis of the net cash inflow in respect of the purchase of the subsidiary:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Cash consideration	(15,331)	—
Bank balances and cash on hand acquired	17,616	—
	<u>2,285</u>	<u>—</u>

### (d) Analysis of balances of cash and cash equivalents:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Bank balances and cash on hand	1,019,903	893,796
Less: Deposits pledged with a bank for banking facilities granted to the Group	(21,119)	—
	<u>998,784</u>	<u>893,796</u>

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 26 EMPLOYEE BENEFITS

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Medical insurance scheme (Note c)	67,955	—
Housing allowances scheme (Note d)	4,154	—
	<hr/>	<hr/>
	72,109	—
Less: Current portion of employee benefits included in other payables and accrued charges	(9,134)	—
	<hr/>	<hr/>
	<u>62,975</u>	<u>—</u>

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in the Guangzhou City have participated in a number of defined contribution employees benefit plans for its existing and retired employees organised by the government. The Group no other material obligation for payment of employee benefits, including any post-employment benefits, beyond the schemes as described below:

### (a) Pension scheme

All employees are entitled to retirement pension benefits equal to a fixed proportion of their salary at their normal retirement age. The Group's annual obligation for payment of this pension contribution is calculated at a rate of approximately 18% based on the total salaries of its employees.

The Group has no contributions payable to the pension scheme at the year-end (2001: Nil).

### (b) Housing fund scheme

The Company and its subsidiaries in the PRC are obligated to make contribution to a defined contribution scheme for the housing benefit of their employees. The Group's annual obligation for payment of this housing benefit contribution is calculated at a rate of approximately 8% based on the total salaries of its employees.

The Group has no contributions payable to the housing scheme at the year-end (2001: Nil).

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 26 EMPLOYEE BENEFITS (continued)

### (c) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1 December 2001, it is mandatory for the Company and its subsidiaries in the PRC to participate in a medical insurance scheme set up and managed by the Government. Employees, included those retired employees, can be benefited from the medical insurance scheme around one month after the registration date.

The Group's annual obligations for payment of this medical insurance contribution is based on 7.5% to 8 % of the preceding year's average annual salary of the Group or the preceding year's average annual salary of the Guangzhou City, depending on the length of the employment period of the employee concerned.

The medical insurance expense of Rmb97,233,000 charged to the 2002 profit and loss account has included an amount of Rmb78,902,000 relating to the contributions accrued for the past service rendered by the retired and retiring employees. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

Prior to joining the scheme, the Group had an arrangement to reimburse medical expenses to existing and retired employees when claims were submitted.

### (d) Housing allowances scheme

Pursuant to the resolution passed at the directors' meeting on 1 July 2002, the Group developed and implemented a housing allowances scheme, which took effect in 2002. The scheme allows the Company and its subsidiaries in the PRC to pay its employees housing allowances if the Company and its subsidiaries are able to meet the budgeted after-tax profit as determined by the board of directors. The final housing allowances however is limited to the difference between the actual and budgeted after-tax profit of the Company.

## 27 COMMITMENTS

### (a) Capital commitments

	Group	
	2002 Rmb'000	2001 Rmb'000
Contracted but not provided for		
Land use rights and buildings	56,604	76,174
Plant, machinery and equipment	162,787	—
	219,391	76,174
Authorised but not provided for		
Land use rights	—	76,860
Plant, machinery and equipment	68,401	—
	287,792	153,034

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 27 COMMITMENTS (continued)

### (b) Financial commitments

	2002 Rmb'000	Group 2001 Rmb'000
Contracted but not provided for Investment securities	<u>3,000</u>	<u>—</u>
Authorised but not provided for Investment in unit-trust	<u>8,000</u>	<u>—</u>

### (c) Commitments under operating leases

At 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2002 Rmb'000	2001 Rmb'000
Not later than one year	20,243	22,756
Later than one year and not later than five years	22,454	32,357
Later than five years	6,978	6,488
	<u>49,675</u>	<u>61,601</u>

## 28 RELATED PARTY TRANSACTIONS

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

	Note	2002 Rmb'000	2001 Rmb'000
Ultimate holding company			
Licence fee expense	a	5,879	5,512
Service fee expense	b	463	683
Welfare facilities fee expense	c	522	418
Rental expense	d	2,621	2,761
Jointly controlled entities			
Sale of semi-finished goods	e	631	1,000
Associated companies			
Sale of finished goods	e	1,853	1,837
Fellow subsidiaries			
Sale of finished goods and raw materials	e	85,020	34,423
Purchase of finished goods and raw materials	e	110,890	63,839
Purchase of buildings	f	69,071	31,700

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 28 RELATED PARTY TRANSACTIONS (continued)

- (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.
- (c) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL's total depreciation charges of the welfare facilities in the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31 December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 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 Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement will expire on 31 August 2003.
- (e) The sales and purchases transactions with jointly controlled entities, associated companies and fellow subsidiaries were at terms similar to those transactions with other third parties.
- (f) In 2001, Guangzhou Pharmaceutical Corporation Limited, a subsidiary of the Company, paid a deposit of Rmb31,700,000 for the purchase of a building from Guangzhou Pharmaceutical Resources Supplying Company, a fellow subsidiary of the Company. Total consideration is Rmb39,239,980 and the transaction was completed in 2002.

In 2002, Guangzhou Baidi Biological Pharmaceutical Co., Ltd., a subsidiary of the Company, acquired a property from Guangzhou Pharmaceutical Research Institute, a related party of the Company. Total consideration is Rmb29,831,000.

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 29 PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries as at 31 December 2002:

Name	% of equity interest held		Registered capital Rmb	Principal activities
	Directly	Indirectly		
Guangzhou First Chinese Medicine Company Limited <sup>2</sup>	97.02	—	166,000,000	Production of CPM
Guangzhou Chen Li Ji Chinese Medicine Factory <sup>1</sup>	100.00	—	94,000,000	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory <sup>1</sup>	100.00	—	82,416,741	Investment Holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. <sup>3</sup>	88.40	—	86,232,345	Production of CPM
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. <sup>3</sup>	87.77	—	65,436,232	Production of CPM
Guangzhou Yang Cheng Pharmaceutical Co., Ltd. <sup>3</sup>	92.48	—	106,378,439	Production of CPM
Guangzhou Xing Qun Pharmaceutical Co., Ltd. <sup>3</sup>	88.99	—	77,168,904	Production of CPM
Guangzhou Pharmaceutical Corporation Limited <sup>2</sup>	96.99	—	222,000,000	Trading of western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation <sup>1</sup>	100.00	—	69,700,000	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Corporation Chun Hing Company <sup>1</sup>	—	96.99	1,070,000	Trading of chemical products and pharmaceutical apparatus
Guangzhou Pharmaceutical Corporation Jianmin Medicine Chain Pharmacies	—	96.99	10,694,000	Wholesaling and retailing of medicine, pharmaceutical and related products
Guangzhou Guo Xin Te Pharmaceutical Miscellaneous Medicine Wholesale Company <sup>1</sup>	—	96.99	9,070,000	Wholesaling of miscellaneous medicine
Guangzhou Jiamin Medicine Pharmaceutical Sales and Marketing Company <sup>1</sup>	—	96.99	500,000	Wholesaling of western patent medicine

# NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

## 29 PRINCIPAL SUBSIDIARIES (continued)

The place of operation of the above subsidiaries is in the PRC.

Name	% of equity interest held		Registered capital Rmb	Principal activities
	Directly	Indirectly		
Guangzhou Pharmaceutical Import & Export Corporation <sup>1</sup>	100.00	—	3,540,000	Import and export of medicine
Guangzhou Qi Xing Pharmaceutical Co., Ltd. <sup>4</sup>	—	75.00	100,000,000	Production of CPM
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory <sup>1</sup>	—	100.00	3,113,000	Processing of health care beverages and drinks
Guangzhou Chinese Medicine Corporation Guangzhou Chinese Medicine Shopping Centre <sup>1</sup>	—	100.00	260,000	Wholesaling and retailing of Chinese raw medicine and CPM
Guangzhou Chinese Medicine Corporation Medical Powder and Herb Wholesale Company <sup>1</sup>	—	100.00	534,000	Wholesaling of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Sales and Marketing Pharmacies	—	100.00	2,083,000	Wholesaling and retailing of CPM
Guangzhou Chinese Medicine Corporation Cai Chi Lim Medicine Chain Pharmacies <sup>1</sup>	—	100.00	3,934,000	Retailing of Chinese raw medicine and Chinese patent medicine
Guangzhou Medical Equipment and Chemical Testing Equipment Co., Ltd. <sup>2</sup>	—	89.32	11,880,000	Wholesaling and retailing of medical apparatus and chemical testing equipment
Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd. <sup>2</sup>	97.44	—	50,000,000	Research and development of CPM
Guangzhou Baidi Biological Pharmaceutical Co., Ltd. <sup>2</sup>	92.8	—	50,000,000	Research and development of biological products
Guangzhou Huanye Pharmaceutical Co., Ltd. <sup>2</sup>	59.7	—	6,000,000	Production of phytochemical medicine
Guangzhou Guo Ying New and Special Medicine Wholesale Company <sup>1</sup>	—	96.99	9,070,000	Wholesaling of medicine and health care products

# NOTES TO THE ACCOUNTS

*(Prepared in accordance with HK GAAP)*

## **29 PRINCIPAL SUBSIDIARIES** *(continued)*

Kind of legal entities:

- 1 State-owned enterprises
- 2 Limited company
- 3 Joint stock company
- 4 Sino-foreign joint venture

## **30 ULTIMATE HOLDING COMPANY**

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

## **31 APPROVAL OF ACCOUNTS**

The accounts were approved by the Board of Directors on 21 March 2003.