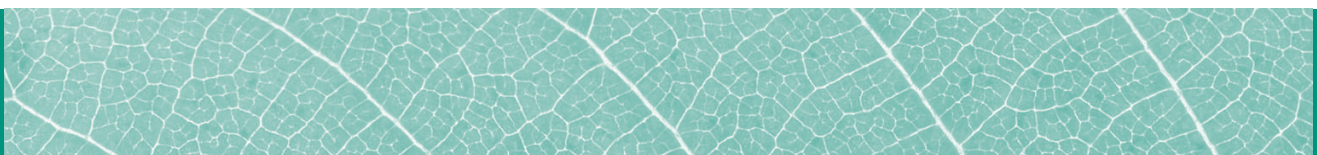


FINANCIAL REPORT

Interim financial report prepared in accordance with PRC accounting standards and systems (page 15 to 27)

Notes to the interim financial report (prepared in accordance with PRC accounting standards and systems)

Condensed interim financial report prepared in accordance with HKSSAP 25(page 66 to 77)



Prepared in accordance with PRC Accounting Standards and Systems (Unaudited)

CONSOLIDATED BALANCE SHEET

As at 30 th June 2003

Appendix I

Prepared by: Guangzhou Pharmaceutical Company Limited

Assets	Notes	Ending balance Rmb	Opening balance Rmb
Current assets:			
Cash	VI-1	892,142,916.49	1,019,903,178.95
Short term investment	VI-2	50,464,244.58	61,194,385.90
Notes receivable	VI-3	16,152,920.93	180,000.00
Dividend receivable	VI-4	2,359,954.92	5,474,684.92
Interest receivable		—	—
Accounts receivable	VI-5	1,009,479,818.74	716,482,532.62
Other receivable	VI-6	167,803,876.13	122,975,499.77
Advance to suppliers	VI-7	46,510,961.28	80,700,451.50
Subsidy receivable	VI-8	10,042,998.97	10,064,712.63
Inventories	VI-9	862,206,587.39	848,519,074.31
Prepaid expenses	VI-10	87,602,721.92	81,727,619.19
Long-term debentures investments due within one year		—	—
Other current assets		—	—
Total current assets		3,144,767,001.35	2,947,222,139.79
Long-term investment			
Long-term equity investment	VI-11	86,016,292.53	86,789,969.55
Long-term debentures investment		—	—
Total long-term investment		86,016,292.53	86,789,969.55
Fixed assets			
Fixed assets - cost	VI-12	1,418,286,389.49	1,247,479,589.50
Less: accumulated depreciation	VI-12	465,261,433.47	442,207,260.76
Fixed assets - net value	VI-12	953,024,956.02	805,272,328.74
Less: provision for fixed assets	VI-12	25,563,236.81	29,564,343.45
Net fixed assets	VI-12	927,461,719.21	775,707,985.29
Construction supplies		—	—
Construction work in progress	VI-13	163,474,986.15	236,616,437.79
Disposal of fixed assets		—	—
Total fixed assets		1,090,936,705.36	1,012,324,423.08
Intangible assets and other assets			
Intangible assets	VI-14	104,528,712.96	93,768,566.32
Long-term prepaid expenses	VI-15	34,361,868.83	33,089,392.45
Other long-term assets		—	—
Total intangible assets and other assets		138,890,581.79	126,857,958.77
Deferred tax			
Deferred tax assets		—	—
Total assets		4,460,610,581.03	4,173,194,491.19

CONSOLIDATED BALANCE SHEET (continued)

Liabilities & shareholder's equity	<i>Notes</i>	Ending balance Rmb	Opening balance Rmb
Current liabilities			
Short-term loans	VI-16	550,540,000.00	555,340,000.00
Notes payable	VI-17	86,209,300.02	78,178,584.40
Accounts payable	VI-18	724,234,582.09	580,755,642.12
Advance from customers	VI-19	45,965,829.35	46,266,805.26
Accrued payroll		103,209,888.84	81,003,162.42
Welfare payable		57,562,465.73	57,057,212.15
Dividends payable	VI-20	620,649.20	49,124,722.36
Tax payable	VI-21	37,383,884.41	48,773,628.89
Other liabilities	VI-22	4,606,573.96	3,954,085.03
Other payables	VI-23	136,336,249.99	124,069,695.90
Accrued expenses	VI-24	14,935,569.23	4,625,106.82
Estimated liabilities		—	—
Long-term liabilities due within one year		10,000,000.00	—
Other current liabilities		—	—
Total current liabilities		1,771,604,992.82	1,629,148,645.35
Long-term liabilities			
Long-term loans	VI-25	107,180,000.00	89,680,000.00
Bonds payable		—	—
Long-term payable	VI-26	3,594,871.48	3,619,897.61
Special payables	VI-27	20,283,330.13	22,893,288.18
Other long-term liabilities		5,000,000.00	5,000,000.00
Total long-term liabilities		136,058,201.61	121,193,185.79
Deferred tax			
Deferred tax credits			
Total liabilities		1,907,663,194.43	1,750,341,831.14
Minority shareholders' equity		168,786,968.56	135,923,981.38
Shareholders' equity			
Share capital	VI-28	810,900,000.00	810,900,000.00
Less: investment returned		—	—
Net share capital		810,900,000.00	810,900,000.00
Capital surplus	VI-29	1,117,952,576.82	1,114,334,224.64
Reserved fund	VI-30	336,429,845.16	336,429,845.16
Including: public welfare fund	VI-30	109,728,912.38	109,728,912.38
Retained earnings		118,877,996.06	25,264,608.87
Total shareholders' equity		2,384,160,418.04	2,286,928,678.67
Total liabilities and shareholders' equity		4,460,610,581.03	4,173,194,491.19

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period ended 30th June 2003

Appendix II - I

Prepared by: Guangzhou Pharmaceutical Company Limited

	Notes	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
1. Sales	VI-31	3,577,432,478.96	3,000,882,903.37
Less: Cost of sales	VI-32	2,860,794,147.40	2,316,922,017.95
Less: Sales tax and levies	VI-33	12,620,768.40	13,583,266.17
2. Profit from principal operations		704,017,563.16	670,377,619.25
Add: Profit from other operations	VI-34	19,447,910.34	17,414,773.88
Less: Operating expenses		249,893,026.21	224,639,697.95
Less: General and administrative expenses		292,237,293.34	258,225,811.36
Less: Financial expenses	VI-35	9,745,954.57	7,534,799.14
3. Operating profit		171,589,199.38	197,392,084.68
Add: investment income	VI-36	(123,373.71)	(538,721.44)
Add: Subsidy income	VI-37	180,927.28	69,318.00
Add: Non-operating income	VI-38	664,644.53	1,050,767.09
Less: Non-operating expenses	VI-39	9,512,472.20	13,228,312.14
4. Total profit		162,798,925.28	184,745,136.19
Less: Income tax		60,757,080.64	69,144,132.64
Less: Loss and gain of minority shareholders		8,428,457.45	8,627,611.60
5. Net profit		93,613,387.19	106,973,391.95

Appendix II - II

Monetary Unit: Renminbi Yuan

	Six months ended 30th June 2003				Six months ended 30th June 2002			
	Return on net assets		Earnings per share		Return on net assets		Earnings per share	
Profit for the period	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	29.53%	30.17%	0.87	0.87	29.34%	30.11%	0.83	0.83
Profit from operations	7.20%	7.35%	0.21	0.21	8.64%	8.87%	0.24	0.24
Net profit	3.93%	4.01%	0.12	0.12	4.68%	4.80%	0.13	0.13
Net profit after deduction of exceptional items	4.16%	4.25%	0.12	0.12	5.04%	5.17%	0.14	0.14

CONSOLIDATED PROFIT APPROPRIATION STATEMENT

For the period ended 30th June 2003

Appendix III

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
1. Net profit	93,613,387.19	106,973,391.95
Add: Retained earnings brought forward	25,264,608.87	531,953.81
Add: Transfer from others	—	—
2. Profit distributable	118,877,996.06	107,505,345.76
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
3. Profit distributable to shareholders	118,877,996.06	107,505,345.76
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	—	—
Less: Dividend for ordinary shares transfer to share capital	—	—
4. Retained earnings	118,877,996.06	107,505,345.76

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30th June 2003

Appendix IV

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Notes	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
I. Cash flow from operating activities			
Cash received from sales of goods or rendering services		3,890,239,781.74	3,249,793,971.20
Refund of tax and levy		2,182,901.06	2,571,762.82
Other cash received related to operating activities	VI-40	14,351,435.07	104,314,987.32
Subtotal of cash inflow		3,906,774,117.87	3,356,680,721.34
Cash paid for goods or services		3,085,124,866.38	2,508,228,304.03
Cash paid to or on behalf of employees		231,385,890.28	208,518,373.69
Tax paid		254,807,641.35	239,851,300.49
Other cash paid in relation to operating activities	VI-41	317,615,687.20	292,912,182.19
Subtotal of cash outflow		3,888,934,085.21	3,249,510,160.40
Net cash flow from operating activities		17,840,032.66	107,170,560.94
II. Cash flow from investing activities			
Cash received from sales of investments		20,000,000.00	1,003,240.64
Cash received from investment income		3,576,842.03	2,126,573.69
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		11,351,260.33	2,484,705.40
Other cash received from investing activities		3,022,039.32	11,080,634.03
Subtotal of cash inflow		37,950,141.68	16,695,153.76
Cash paid to acquire fixed assets, intangible assets and other long-term assets		127,412,579.73	75,352,038.62
Cash paid to acquire investment		9,675,000.00	79,103,140.00
Other cash paid in relation to investment activities		6,763,004.20	2,710,816.64
Subtotal of cash outflow		143,850,583.93	157,165,995.26
Net cash flow from investing activities		(105,900,442.25)	(140,470,841.50)
III. Cash flow from financing activities			
Proceeds from acquiring investments		—	—
Proceeds from acquiring investment from minority shareholders		7,650,000.00	—
Proceeds from borrowings		351,750,000.00	269,940,000.00
Other proceeds relating to financing activities		1,521,104.65	1,177,095.95
Subtotal of cash inflow		360,921,104.65	271,117,095.95
Cash repayments of amounts borrowed		329,050,000.00	172,619,927.31
Cash payments for distribution of dividends, profits or interest expenses		66,216,758.60	62,039,182.33
Cash payments for distribution of dividends to minority shareholders		5,354,198.92	3,511,469.89
Other cash payments relating to financing activities		—	1,903,112.81
Subtotal of cash outflow		400,620,957.52	240,073,692.34
Net cash flow from financing activities		(39,699,852.87)	31,043,403.61
IV. Effect of changes in foreign exchange rate on cash		—	—
V. Net increase in cash and cash equivalents		(127,760,262.46)	(2,256,876.95)

Supplementary Information

Item	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
1. Reconciliation of net profit to cash flow operating activities		
Net profit	93,613,387.19	106,973,391.95
Loss & gain of minority shareholders	8,428,457.45	8,627,611.60
Add: Provision of value impairment of assets	8,982,278.32	13,206,602.38
Depreciation of fixed assets	39,234,221.87	39,524,883.05
Amortization of intangible assets	1,999,507.00	2,179,600.31
Amortization of long-term prepaid expenses	9,106,573.93	7,077,137.65
Decrease in prepaid expenses (less: increase)	(5,875,102.73)	(7,065,663.50)
Increase in accrued expenses (less: decrease)	10,310,462.41	8,400,881.10
Loss on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	387,123.45	206,585.44
Loss on scrapping of fixed assets	2,757,934.82	1,244,327.84
Financial expenses	18,675,929.35	13,951,785.08
Loss on investment (less: gain)	123,373.71	538,721.44
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	(13,687,513.08)	167,881,488.24
Decrease in operating receivables (less: increase)	(318,110,273.74)	(278,653,799.62)
Increase in operating payables (less: decrease)	161,608,129.98	23,077,007.98
Others	285,542.73	-
Net cash flow from operating activities	17,840,032.66	107,170,560.94
2. Investing and financing activities that don't involve in cash receipts or payments		
Repayment of debts by the transfer of investments	—	—
Convertible bonds due within one year	—	—
Fixed assets obtained by financing lease	—	—
3. Net increase in cash and cash equivalents		
Cash at the end of period	892,142,916.49	865,150,772.53
Less: Cash at the beginning of period	1,019,903,178.95	867,407,649.48
Add: Cash equivalents at the end of period	—	—
Less: Cash equivalents at the beginning of period	—	—
Net increase in cash and cash equivalents	(127,760,262.46)	(2,256,876.95)

BALANCE SHEET

As at 30th June 2003

Appendix V

Prepared by: Guangzhou Pharmaceutical Company Limited

Assets	Notes	Ending balance Rmb	Opening balance Rmb
Current assets:			
Cash		220,081,921.15	204,624,119.72
Short term investment		50,464,244.58	61,194,385.90
Notes receivable		—	—
Dividend receivable		11,992,165.00	5,106,895.00
Interest receivable		—	—
Accounts receivable		—	—
Other receivable	VII-1	345,609,122.43	285,792,292.21
Prepayments		—	—
Subsidy receivable		—	—
Inventories		—	—
Prepaid expenses		—	—
Long-term debentures investments due within one year		—	—
Other current assets		—	—
Total current assets		628,147,453.16	556,717,692.83
Long-term investment			
Long-term equity investment	VII-2	1,775,785,238.93	1,772,278,585.65
Long-term debentures investment		—	—
Total long-term investment		1,775,785,238.93	1,772,278,585.65
Fixed assets			
Fixed assets - cost		37,075,137.03	31,605,410.76
Less: accumulated depreciation		8,754,354.01	7,279,372.15
Fixed assets - net value		28,320,783.02	24,326,038.61
Less: provision for fixed assets		7,109,752.25	7,109,752.25
Net fixed assets		21,211,030.77	17,216,286.36
Construction supplies		—	—
Construction work in progress		—	4,330,352.17
Disposal of fixed assets		—	—
Total fixed assets		21,211,030.77	21,546,638.53
Intangible assets and other assets			
Intangible assets		—	—
Long-term prepaid expenses		2,191,444.73	2,404,510.41
Other long-term assets		—	—
Total intangible assets and other assets		2,191,444.73	2,404,510.41
Deferred tax			
Deferred tax assets		—	—
Total assets		2,427,335,167.59	2,352,947,427.42

BALANCE SHEET (continued)

Liabilities & shareholder's equity	<i>Notes</i>	Ending balance Rmb	Opening balance Rmb
Current liabilities			
Short-term loans		—	—
Notes payable		—	—
Accounts payable		—	—
Advance from customers		—	—
Accrued payroll		2,629,148.66	2,629,148.66
Welfare payable		2,819,254.83	2,568,305.87
Dividends payable		9,935.83	48,676,917.14
Tax payable		961,609.68	408,494.06
Other liabilities		—	9,880.96
Other payables		34,433,036.78	11,947,614.68
Accrued expenses		1,308,187.00	3,250,000.00
Estimated liabilities		—	—
Long-term liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		42,161,172.78	69,490,361.37
Long-term liabilities			
Long-term loans		—	—
Bonds payable		—	—
Long-term payable		—	—
Special payables		—	—
Other long-term liabilities		—	—
Total long-term liabilities		—	—
Deferred tax			
Deferred tax credits		—	—
Total liabilities		42,161,172.78	69,490,361.37
Shareholders' equity			
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		1,117,838,541.74	1,114,220,189.56
Reserved fund		124,276,436.70	124,276,436.70
Including: public welfare fund		52,000,975.21	52,000,975.21
Retained earnings		332,159,016.37	234,060,439.79
Total shareholders' equity		2,385,173,994.81	2,283,457,066.05
Total liabilities and shareholders' equity		2,427,335,167.59	2,352,947,427.42

PROFIT AND LOSS ACCOUNT

For the period ended 30th June 2003 and 2002

Appendix VI

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Notes	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
1. Sales		—	—
Less: Cost of sales		—	—
Less: Sales tax and levies		—	—
2. Profit from principal operations		—	—
Add: Profit from other operations		(101,095.92)	—
Less: Operating expenses		—	—
Less: General and administrative expenses		9,496,481.49	10,403,830.43
Less: Financial expenses		(2,037,278.47)	(3,217,632.01)
3. Operating profit		(7,560,298.94)	(7,186,198.42)
Add: investment income	VII-3	105,670,008.14	109,066,856.54
Add: Subsidy income		—	—
Add: Non-operating income		—	—
Less: Non-operating expenses		11,132.62	—
4. Total profit		98,098,576.58	101,880,658.12
Less: Income tax		—	864,591.02
5. Net profit		98,098,576.58	101,016,067.10

PROFIT APPROPRIATION STATEMENT

For the period ended 30th June 2003 and 2002

Appendix VII

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
1. Net profit	98,098,576.58	101,016,067.10
Add: Retained earnings brought forward	234,060,439.79	151,227,348.71
Add: Transfer from others	—	—
2. Profit distributable	332,159,016.37	252,243,415.81
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
3. Profit distributable to shareholders	332,159,016.37	252,243,415.81
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	—	—
Less: Dividend for ordinary shares transfer to share capital	—	—
4. Retained earnings	332,159,016.37	252,243,415.81

CASH FLOW STATEMENT

For the period ended 30th June 2003 and 2002

Appendix VIII

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
I. Cash flow from operating activities		
Cash received from sales of goods or rendering services	—	—
Refund of tax and levy	—	—
Other cash received related to operating activities	2,652,555.38	2,623,217.88
Subtotal of cash inflow	2,652,555.38	2,623,217.88
Cash paid for goods or services	—	—
Cash paid to or on behalf of employees	3,987,199.00	5,582,045.70
Tax paid	237,959.57	1,084,991.62
Other cash paid in relation to operating activities	2,855,203.12	6,030,682.23
Subtotal of cash outflow	7,080,361.69	12,697,719.55
Net cash flow from operating activities	(4,427,806.31)	(10,074,501.67)
II. Cash flow from investing activities		
Cash received from sales of investments	20,000,000.00	—
Cash received from investment income	99,155,060.26	75,372,458.92
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—	—
Other cash received from investing activities	75,000,000.00	10,198,176.50
Subtotal of cash inflow	194,155,060.26	85,570,635.42
Cash paid to acquire fixed assets, intangible assets and other long-term assets	660,839.22	725,164.00
Cash paid to acquire investment	9,675,000.00	83,850,000.00
Other cash paid in relation to investment activities	116,173,275.92	10,704,001.88
Subtotal of cash outflow	126,509,115.14	95,279,165.88
Net cash flow from investing activities	67,645,945.12	(9,708,530.46)
III. Cash flow from financing activities		
Proceeds from acquiring investments	—	—
Proceeds from borrowings	—	—
Other proceeds relating to financing activities	—	—
Subtotal of cash inflow	—	—
Cash repayments of amounts borrowed	—	—
Cash payments for distribution of dividends, profits or interest expenses	47,760,337.38	48,654,000.05
Other cash payments relating to financing activities	—	—
Subtotal of cash outflow	47,760,337.38	48,654,000.05
Net cash flow from financing activities	(47,760,337.38)	(48,654,000.05)
IV. Effect of changes in foreign exchange rate on cash		
V. Net increase in cash and cash equivalents	15,457,801.43	(68,437,032.18)

Supplementary Information

Item	Six months ended 30th June 2003 Rmb	Six months ended 30th June 2002 Rmb
1. Reconciliation of net profit to cash flow operating activities		
Net profit	98,098,576.58	101,016,067.10
Add: Provision of value impairment of assets	—	—
Depreciation of fixed assets	1,474,981.86	1,205,330.60
Amortization of intangible assets	—	—
Amortization of long-term prepaid expenses	413,065.68	413,065.68
Decrease in prepaid expenses (less: increase)	—	—
Increase in accrued expenses (less: decrease)	(1,941,813.00)	(2,300,000.00)
Loss on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	—	—
Loss on scrapping of fixed assets	—	—
Financial expenses	—	5,669.20
Loss on investment (less: gain)	(105,670,008.14)	(109,066,856.54)
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	—	—
Decrease in operating receivables (less: increase)	1,255,349.78	—
Increase in operating payables (less: decrease)	1,942,040.93	(1,347,777.71)
Others	—	—
Net cash flow from operating activities	(4,427,806.31)	(10,074,501.67)
2. Investing and financing activities that don't involve in cash receipts or payments		
Repayment of debts by the transfer of investments	—	—
Convertible bonds due within one year	—	—
Fixed assets obtained by financing lease	—	—
3. Net increase in cash and cash equivalents		
Cash at the end of period	220,081,921.15	265,145,554.65
Less: Cash at the beginning of period	204,624,119.72	333,582,586.83
Add: Cash equivalents at the end of period	—	—
Less: Cash equivalents at the beginning of period	—	—
Net increase in cash and cash equivalents	15,457,801.43	(68,437,032.18)

BREAKDOWN OF PROVISION FOR ASSET'S VALUE IMPAIRMENT

For the period ended 30th June 2003

Appendix VIV

Monetary Unit: Renminbi Yuan

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Opening balance	Current increase	Reduction		Total recovery	Ending balance
			Current recovery related to recovery of asset's value	Other current recovery		
1. Total provision for bad debts	45,769,189.55	8,982,278.32	88,062.24	112,796.00	200,858.24	54,550,609.63
Including: Accounts receivables	38,791,512.37	8,980,716.72	88,062.24	53,563.70	141,625.94	47,630,603.15
Other receivables	6,977,677.18	1,561.60	—	59,232.30	59,232.30	6,920,006.48
2. Total provision for short-term investment	2,395,536.76	—	1,237,858.68	—	1,237,858.68	1,157,678.08
Including: Stock investment	920,003.76	—	566,156.16	—	566,156.16	353,847.60
Debenture investment	1,475,533.00	—	671,702.52	—	671,702.52	803,830.48
3. Total provision for inventories	689,096.81	—	—	30,576.91	30,576.91	658,519.90
Including: Goods in stock	390,344.03	—	—	30,576.91	30,576.91	359,767.12
Raw material	298,752.78	—	—	—	—	298,752.78
4. Total provision for long-term investment	32,555,294.68	—	—	151,890.13	151,890.13	32,403,404.55
Including: Long-term equity investment	32,555,294.68	—	—	151,890.13	151,890.13	32,403,404.55
Long-term debenture investment	—	—	—	—	—	—
5. Total provision for fixed assets	29,564,343.45	—	—	4,001,106.64	4,001,106.64	25,563,236.81
Including: House and building	19,109,793.34	—	—	2,706,000.83	2,706,000.83	16,403,792.51
Machinery equipment	10,044,172.53	—	—	1,241,832.99	1,241,832.99	8,802,339.54
6. Provision for intangible assets	966,151.46	—	—	—	—	966,151.46
Including: Patent	—	—	—	—	—	—
Trademark	—	—	—	—	—	—
7. Provision for construction work in progress	—	—	—	—	—	—
8. Provision for loan by trust	—	—	—	—	—	—
9. Total	111,939,612.71	8,982,278.32	1,325,920.92	4,296,369.68	5,622,290.60	115,299,600.43

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 a 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 listed on The Stock Exchange of Hong Kong Limited in October 1997. After obtaining the approval from the China Securities Regulatory Committee, the Company issued 78 million A shares listed on The Shanghai Stock Exchange on 10 January 2001. The total registered share capital of the Company is Rmb810,900,000, including shares owned by the State of Rmb513,000,000, comprising 63.26% of the total shares, and public shares of Rmb297,900,000, comprising 36.74% of the total shares.

The Company and its subsidiaries included in the conduction scope (the “Group”) are engaged in capital management, investment, research, development, financing, the research, development and manufacturing of Chinese patent medicine, biological products, health care medicines and drinks, and the wholesale, retail and import and 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 accounting policies adopted by the Group are in accordance with “Accounting Standards of Business Enterprises” and “Accounting Regulations for Business Enterprises”.

2. Accounting Period

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

3. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

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 translations during the year are translated into Renminbi at the exchange rates stipulated by the People’s Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the exchange rates stipulated by the People’s Bank of China at the balance sheet date. Exchange differences arising from these translations are 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 Company prepares the cash flow statement.

7. Provision for Bad Debts

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

Certified standard of bad debts recognition: 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; 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 certified standard of provision for bad debts approved by the Board of Directors, the Group provides an allowance for bad debts based on the aging of receivable balances. In addition, the Company provides a special provision for high-risk receivables based on the financial status and liquidity of the debtor.

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

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 receivable includes accounts receivable and other receivables. The Company provides a provision for other receivables after deducting the balance of inter-company debtors, unreimbursed business disbursements and other current accounts not related to repayment of accounts.

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 date issued for use.

(2) Commercial enterprises:

Inventories of wholesale enterprises are stated at acquisition cost and accounted for on a 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 low selling price, the Group will provide a provision for inventories for the difference.

9. Short-term investments

- (1) Short-term investments of the Group are recorded at total price on acquisition after 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, a 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 Company has no significant influence over 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 Company has significant influence over the investee, the equity method of accounting is adopted. For those investments made which represent more or less than 50% of the investee's issued capital, but the Company has substantial control over the investee, the equity method of accounting is adopted and consolidated financial statements are prepared.

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

Equity investment differences are amortized on an average basis 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 of 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 debenture investments

Debentures invested by the Company are stated at investment cost and investment income is accounted for using the cost method.

Premiums or discounts are amortized on a straight-line basis 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

As approved by the Board of Directors, in the event of a continuing decline in market value or deterioration in operating conditions of the investee enterprise where the decline will not be recovered in the foreseeable future, the Company will make a provision for this based on the difference between the recoverable amount and the carrying amount of the investment.

13. Fixed Assets and Depreciation

Fixed assets include buildings, motor vehicles, machinery and equipment that 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 using the straight-line method, after 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
Buildings	15-50 years	1.80%-6.60%
Machinery and equipment	4-18 years	5%-24.75%
Motor vehicles	5-10 years	9%-19.80%
Electronic 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 depreciating those assets with a value impairment provision, 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 the case where the value of those fixed assets with provisions 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 obsolescence, damage, long idleness or other economic reasons, the Group will provide a 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 is 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, 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, a 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 propriety technology, are stated at acquisition cost. Amortization is provided to write off the cost on an average basis over their expected useful lives.

Intangible assets of the Group are priced at the lower of book value and recoverable amount. At year-end, if the recoverable amount is lower than book value, a 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 is capitalized before the project is delivered for use, and included as a project cost.

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

18. Recognition of income

Income in respect of sales of goods is recognized when title to the goods and its major risks and rewards are passed to customers, the Company 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 estimated reliably.

Income in respect of service rendered is recognized on completion of contracts and either contracted fees are received or entitlement to fees is evidenced.

19. Taxation

The Company 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.

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

Activity category	Tax category	Tax rate
Sales of goods	Value Added Tax	17%
Sales of materials	Value Added Tax	17%
Rental income	Business Tax	5%
Income from fund occupation	Business Tax	5%
Income from sales of wine products	Consumption Tax	10%

- (2) City construction tax

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

- (3) Education surcharge

The education surcharge is calculated and paid based on 3% of total circulating tax. Subsidiaries of the Group that are foreign invested enterprises are not subject to 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 subsidiaries, applies enterprise income tax at a rate of 24% and local income tax at a rate of 3%.

IV. Subsidiaries and Joint Ventures

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

Name of the Company	Registered capital <i>Rmb'000</i>	Invested amount by the Company in its subsidiaries <i>Rmb'000</i>	% of equity interest	Principle activities
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd	83,280	48,720	58.51	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
Kwang Chow First Chinese Medicine Company Limited	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	88.40	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 Corporation	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. Those subsidiaries in which the Company holds over 50% equity interest but are not included in the consolidation scope are as follows:

The Company holds an 80% equity interest in Guangzhou Medicine Commodities Exhibition Store, but based on the material principle it was not consolidated into the Company. Because its total assets, sales and net profit to which the Company is entitled are below 10% of those of the Company, in addition the store commenced its liquidation in the current year.

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

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.

VI. Notes to Consolidated Financial Statements

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

1. Bank balances and cash

	Ending balance	Opening balance
Cash on hand	1,439,757.52	1,613,278.00
Cash in bank	884,023,523.55	993,825,484.15
Cash equivalence	6,679,635.42	24,464,416.80
	<u>892,142,916.49</u>	<u>1,019,903,178.95</u>

(1) Breakdown of cash in bank

	Ending balance	Opening balance
Current deposit	633,572,640.50	646,986,537.82
Fixed deposit	250,450,883.05	346,838,946.33
	<u>884,023,523.55</u>	<u>993,825,484.15</u>

(2) Breakdown of cash equivalents

	Ending balance	Opening balance
Bank note deposit	227,819.21	16,838,694.32
Credit card deposit	223,386.09	238,696.27
L/C deposit	6,228,430.12	7,387,026.21
	<u>6,679,635.42</u>	<u>24,464,416.80</u>

2. Short-term investments

	Ending balance	Provision	Market price
Stock	3,733,092.18	353,847.60	3,379,244.58
Treasury bill	39,888,830.48	803,830.48	39,085,000.00
Investment Fund	8,000,000.00	0.00	8,000,000.00
	<u>51,621,922.66</u>	<u>1,157,678.08</u>	Note <u>50,464,244.58</u>

Note: According to the closing price of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on 30 June 2003, the Group made an provision for the amount of which the market price is lower than cost.

3. Notes receivable

- (1) The ending balance of RMB16,152,920.93 represents bank acceptance bill.
- (2) Compared with the opening balance, the ending balance increased by 8,873%. The increase is due to that the Group used more bank note to settle transaction than before

4. Dividend receivable

	Ending balance	Opening balance
Nanhai Southern Packing Company Limited	1,992,165.00	5,106,895.00
GETDD Yongcheng Medicine Trading Co., Ltd.	367,789.92	367,789.92
	<u>2,359,954.92</u>	<u>5,474,684.92</u>

Compared with the opening balance, the ending balance decreased 56.89%. The decrease is due to dividend received from Nanhai Nanfang packing Co., Ltd.

5. Accounts receivable

(1) Aging analysis of accounts receivable

Aging	Balance	Ending balance		Provision Percentage
		Percentage	Bad debt provision	
Within 1 year	979,772,034.54	92.68%	9,850,884.36	1.00%
Over 1 year and within 2 years	28,797,604.77	2.72%	2,879,760.48	10.00%
Over 2 years and within 3 years	7,075,040.49	0.67%	2,122,512.15	30.00%
Over 3 years and within 4 years	14,291,873.72	1.35%	7,145,936.86	50.00%
Over 4 years and within 5 years	7,711,795.28	0.73%	6,169,436.22	80.00%
Over 5 years	19,462,073.09	1.84%	19,462,073.09	100.00%
	<u>1,057,110,421.89</u>	<u>100.00%</u>	<u>47,630,603.15</u>	<u>4.51%</u>

Aging	Balance	Opening balance		Provision Percentage
		Percentage	Bad debt provision	
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>

From the balances aforementioned, no account is due from those shareholders, which have a shareholding of 5% or more.

- (2) From the balance aforementioned, Rmb67,678,691.80 is owed by the top five customers with largest balances, representing 6.40% of the total balance.
- (3) Compared with the opening balance, the Ending balance has increased 40.89%. The main reason for this increase is due to 1) the increase of sales, 2) further extension of the hospital's tendering, 3) longer credit terms to hospitals, 4) agents' delayed repayment due to its tighten cash flow during the SARS period.

6. Other receivables

(1) Aging analysis of other receivables

Aging	Balance	Ending balance		Provision Percentage
		Percentage	Bad debt provision	
Within 1 year	114,109,186.15	65.31%	18,929.65	0.02%
Over 1 year and within 2 years	17,515,202.90	10.02%	38,000.00	0.22%
Over 2 years and within 3 years	19,123,579.43	10.95%	2,022,726.66	10.58%
Over 3 years and within 4 years	4,913,448.47	2.81%	115,093.34	2.34%
Over 4 years and within 5 years	2,438,262.68	1.40%	0.00	0.00%
Over 5 years	16,624,202.98	9.51%	4,725,256.83	28.42%
	<u>174,723,882.61</u>	<u>100.00%</u>	<u>6,920,006.48</u>	<u>3.96%</u>

Aging	Balance	Opening balance		Provision Percentage
		Percentage	Bad debt provision	
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>

(2) Details of other receivables

	Ending balance
Petty cash	1,631,001.45
Deposit	3,747,681.27
Advance to staff for operation	32,941,534.22
Advance to staff for private	62,792.85
Current account with external company	110,491,465.42
Advance for new plant project and equipments	17,302,728.17
Research & Development contract fee to Hangzhou Zhe Da	1,200,000.00
Others	7,346,679.23
	<u>174,723,882.61</u>

Among the other receivable accounts, amounts due from those shareholders that have a shareholding of 5% or more represented the amount due from the Holding amounted to Rmb 8,049,523.12.

(3) Compared with the opening balance, the Ending balance has increased by 36.45%. The increase is mainly due to the advance for projects and equipments.

7. Advance to suppliers

- (1) From the balance aforementioned, no advance has been paid to those shareholders that have shareholding a 5% or more.
- (2) Compared with the opening balance, the ending balance decreased by 42.37%. The decrease is due to that the goods purchased at the beginning of 2003 were received.

8. Subsidy receivable

	Ending balance	Opening balance
Export tax refundable	<u>10,042,998.97</u>	<u>10,064,712.63</u>
	<u>10,042,998.97</u>	<u>10,064,712.63</u>

9. Inventories

	Ending balance		Opening balance	
	Balance	Provision	Balance	Provision
Goods in transit	1,854,131.93	—	3,920,280.65	—
Raw material	85,887,894.76	298,752.78	78,262,771.39	298,752.78
Work in progress	37,199,567.09	—	35,133,621.26	—
Finished goods	50,245,051.57	—	85,135,120.98	—
Consumables	1,870,053.41	—	1,554,527.27	—
Packing Material	36,715,400.77	—	28,032,228.25	—
Goods for process	741,848.00	—	1,342,025.86	—
Consigned commodity	38,422.53	—	—	—
Stock goods	646,008,444.50	359,767.12	613,928,504.51	390,344.03
Others	2,304,292.73	—	1,899,090.95	—
	<u>862,865,107.29</u>	<u>658,519.90</u>	<u>849,208,171.12</u>	<u>689,096.81</u>

The Company made a provision of Rmb658,519.90 based on the difference between the carrying cost and net realizable value for obsolete and slow moving stock and those which selling prices are lower than their cost.

10. Pre-paid expense

	Opening balance	Addition	Amortisation	Ending balance
Insurance expense	2,600,600.95	70,714.77	1,755,383.13	915,932.59
Repair and maintenance of fixes assets	582,927.48	229,940.64	505,363.02	307,505.10
Road toll	31,253.28	80,343.55	80,039.68	31,557.15
Advertising	1,152,000.00	—	576,000.00	576,000.00
Deductible input VAT	76,886,436.31	165,462,541.04	157,352,127.22	84,996,850.13
Others	474,401.17	878,004.55	577,528.77	774,876.95
	<u>81,727,619.19</u>	<u>166,721,544.55</u>	<u>160,846,441.82</u>	<u>87,602,721.92</u>

11. Long-term equity investment

(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
Guangzhou Zhongsheng Medical Factory Taihe Substation	N/A	50.00%	1,000,000.00
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	20.52%	615,000.00
Hangzhou Zhe Da Han Fang Chinese Medicine information Engineering Co., Ltd.	N/A	44.00%	440,000.00
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	10.00%	400,000.00
Nanhai Southern Packing Company Limited	2011	21.42%	30,000,000.00
Jihua Medical Appliance Company Limited	N/A	24.00%	3,000,000.00
Guoyao Group Industrial Co., Ltd	N/A	10.00%	8,000,000.00
Everbright Bank	N/A	0.30%	10,725,000.00
Jinying Fund Management Co., Ltd	N/A	20.00%	20,000,000.00
Guangzhou Jinsheng Pharmaceutical Co., Ltd.	N/A	45.00%	675,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	2005	40.00%	362,826.38
Holding Company of Nine Cities Eleven Factories Association	—	—	50,000.00
Communication Bank Guangdong Branch	—	—	362,750.00

(2) Changes in long-term equity investments during the current year are as follows:

	Ending balance	Original Investment	Current fluctuation under equity method	Accumulated fluctuation under equity method	Provision	Note
Guangdong Xinghua Health Drink Company Limited.	37,545,697.21	39,644,000.00	(173,740.08)	(2,098,302.79)	29,907,945.05	[1]
Indonesia Sanyou Industrial Company Limited	1,260,144.45	1,521,562.82	—	—	1,260,144.45	[2]
Guangzhou Zhongfu Pharmaceutical company Limited	1,497,703.72	400,000.00	117,514.27	1,097,703.72	—	
Shanghai Jiuhe Tang Chinese Medicine Company Limited	615,000.00	615,000.00	—	—	—	
Guangzhou Zhongsheng Medical Factory Taihe Substation	785,315.05	1,000,000.00	—	(214,684.95)	785,315.05	[3]
Hangzhou Zhe Da Han Fang Chinese Medicine information Engineering Co., Ltd.	400,071.75	440,000.00	—	(39,928.25)	—	
Ming Tai Industrial (Thailand) Company Limited	311,749.32	516,930.33	—	(205,181.01)	—	
Hang Zhou Medical Station Co. Ltd.	264,000.00	264,000.00	—	—	—	
Guangzhou Medicine Commodities Exhibition Store	531,179.87	861,392.58	2,257.37	(162,992.60)	—	
GETDD Yongcheng Medicine Trading Co., Ltd.	1,288,595.25	480,000.00	—	808,595.25	—	
Guangzhou Medicine Company Bei Jing Lu Medicine Store	218,399.05	160,000.00	—	58,399.05	—	
Chinese Medical Trading Association Co. Ltd.	400,000.00	400,000.00	—	—	400,000.00	[4]
Nanhai Southern Packing Company Limited	30,000,000.00	30,000,000.00	—	—	—	
Jihua Medical Appliance Company Limited	2,171,342.34	3,000,000.00	(218,324.19)	(828,657.66)	—	
Guoyao Group Industrial Co., Ltd	8,000,000.00	8,000,000.00	—	—	—	
Everbright Bank	10,725,000.00	10,725,000.00	—	—	—	
Jinying Fund Management Co., Ltd	18,427,641.32	20,000,000.00	(1,572,358.68)	(1,572,358.68)	—	
Guangzhou Jinsheng Pharmaceutical Co., Ltd.	675,000.00	675,000.00	—	—	—	
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	362,826.38	—	—	—	
Holding Company of Nine Cities Eleven Factories Association	50,000.00	50,000.00	—	—	50,000.00	[5]
Communication Bank Guangdong Branch	362,750.00	362,750.00	—	—	—	
Guangzhou Pangaoshou Natural Health Product Co., Ltd (consolidation variance)	1,371,493.99	—	—	—	—	
Guangzhou Baidi Bio-medicine Co., Ltd (consolidation variance)	158,596.04	—	—	—	—	
Guangzhou Huanye Medicine Manufacturing Co., Ltd (consolidation variance)	942,724.13	—	—	—	—	
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. (consolidation variance)	54,467.21	—	—	—	—	
	<u>118,419,697.09</u>	<u>119,478,462.11</u>	<u>(1,844,651.31)</u>	<u>(3,157,407.92)</u>	<u>32,403,404.55</u>	

Note 1. As Guangdong Xinghua Health Drink Company Limited sustained losses for five years with material risk of impairment loss, the Group has made a provision at 80% of the book value of this investment based on the investee's continuing deteriorating financial situation.

Note 2. Although the Group can receive a little part of investment income, full provision has been made on the basis of conservatism principle.

Note 3. Guangzhou Zhongsheng Medical Factory Taihe Factory sustained significant losses. Because of the dispute between the cooperation companies, the liquidation of the factory in 2001 had not yet been completed at period end. Based on the principle of prudence, a provision for the full amount has been made

Note 4. As Chinese Medical Trading Association Co. Ltd. is facing severe operational difficulties it is estimated that the investment is hard to reclaim. A provision in full amount is made.

Note 5. Since the Group has been unable to obtain financial information and unable to know the current situation of the investment, based on the principle of prudence, full provision has been made.

12. Fixed assets and accumulated depreciation

Cost	Opening balance	Addition	Disposal	Ending balance	Provision
Building	681,829,795.79	155,226,845.48	8,331,947.42	828,724,693.85	16,403,792.51
Machinery	439,590,073.71	29,216,586.55	18,123,426.56	450,683,233.70	8,802,339.54
Transportation Vehicle	83,408,757.51	6,811,182.08	2,948,168.54	87,271,771.05	227,584.62
Electronic equipment	11,877,149.99	1,041,486.83	40,791.84	12,877,844.98	—
Office equipment	30,773,812.50	8,109,718.73	154,685.32	38,728,845.91	129,520.14
	<u>1,247,479,589.50</u>	<u>200,405,819.67</u>	<u>29,599,019.68</u>	<u>1,418,286,389.49</u>	<u>25,563,236.81</u>

Accumulated depreciation	Opening balance	Addition	Disposal	Ending balance
Building	137,809,341.32	14,194,198.75	1,963,535.29	150,040,004.78
Machinery	235,017,893.00	18,009,184.77	11,832,566.27	241,194,511.50
Transportation Vehicle	47,056,018.35	3,488,578.72	2,207,593.60	48,337,003.47
Electronic equipment	7,063,937.52	1,224,836.51	33,751.68	8,255,022.35
Office equipment	15,260,070.57	2,317,423.12	142,602.32	17,434,891.37
	<u>442,207,260.76</u>	<u>39,234,221.87</u>	<u>16,180,049.16</u>	<u>465,261,433.47</u>

- (1) During the period, the original cost of construction work in progress completed and transferred to fixed assets amounted to Rmb166,727,996.28.
- (2) As at 30 June 2003, the Group has pledged fixed assets with a net book value of Rmb97,260,000 (as at 31 December 2002: Rmb118,030,000.00) as security for its bank loans.
- (3) At the end of the period, the Group made a provision of Rmb25,563,236.81 for those fixed assets whose recoverable amounts are lower than their book values due to technological obsolescence, damage or idleness.

13. Construction work in progress

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

Project	Budget	Financing source	% of fund used to budget
Relocation of Guangzhou Xingqun Pharmaceutical Company	243,688,046.72	Working Capital and loan	61.83%
Xingqun Manufacture Workshop project at phase 3	12,950,000.00	Working capital	107.18%
Xingqun Repair Workshop project phase 2	465,000.00	Working capital	85.05%
Zhong Yi relocation of Yunpu workshop	197,030,000.00	Working Capital	14.27%
Zhong Yi dust cleaning project	—	—	—
Relocation and expansion of Chenlijii factory	29,000,000.00	Working capital	12.15%
Chinese medicine absorbing base of Chenlijii	—	Working capital and stock capital	—
Chenlijii Houzaowan and Bupiyichangwan technical alteration	11,650,000.00	Working capital and stock capital	99.56%
Chenlijii product show room	4,000,000.00	Working capital and stock capital	1.52%
Hanfang equipment installation project	7,905,950.00	Stock capital	36.01%
Hanfang Conghua base construction	54,600,000.00	Stock capital	3.60%
Jingxiutang Prepayment for equipment	—	Working capital and loan	—
Jingxiutang Anbike equipment installed	—	Working capital	—
Jingxiutang suppository production line	—	Working capital and loan	—
Jingxiutang Zhuifengtouguan production line	—	Working capital and stock capital	—
Jingxiutang GMP upgrade project	30,300,000.00	Stock capital and loan	6.10%
Jingxiutang Wanhuayou GMP	3,000,000.00	Working capital	61.10%
Pangaoshou GMP upgrade project	100,000,000.00	Loan	29.17%
Pangaoshou office in Fuqian Building	7,707,542.02	Working capital and stock capital	1.1%
Pangaoshou office equipment installed	—	Stock capital	—
Pangaoshou transportation vehicle	—	Stock capital	—
Yangcheng pill workshop	11,000,000.00	Working capital and stock capital	1%
Alteration of Yangcheng central checking room	2,000,000.00	Working capital and stock capital	5.60%
Yangcheng inter- factory maintenance	1,000,000.00	Stock capital	19.30%
Yangcheng granules GMP workshop	37,400,000.00	Stock capital	42.04%
Alteration of Yangcheng sewage treatment	400,000.00	Stock capital	22.15%
Alternation of Yangcheng boiler project	600,000.00	Stock capital	16.75%
Yangcheng Jian Pi Li Chang Pill technology upgrade project	17,800,000.00	Stock capital	74.49%
Alteration of Yangcheng distilling workshop technology	1,700,000.00	Stock capital	38.18%
Alteration of Yangcheng Ke Gan Li Yan Syrup technology upgrade equipments	19,600,000.00	Stock capital	54.89%
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	52,980,000.00	Working capital, stock capital and loan	40.32%
Computer installation of Guangzhou Pharmaceutical Corporation	1,120,260.00	Working capital and stock capital	30.00%
Office building renovation of Guangzhou Pharmaceutical Corporation	1,973,696.60	Working capital	40.53%
Caizhiling store in Jiahong Garden	2,101,710.00	Working capital and stock capital	103.70%
Caizhiling store in Wanfeng Garden	2,300,000.00	Working capital and stock capital	3.67%
Chinese Syrup Medicine Factory GMP renovation	2,500,000.00	Stock capital	27.84%
ERP project of Guangzhou Pharmaceutical Import & Export Corporation	600,000.00	Working capital	16.32%
The first installment of Yingke software	4,558,265.44	Stock capital	92.8%
Baidi equipment installation	—	Stock capital and Government technology subsidy	—
Alteration of Baidi Zhongcun scientific research base	33,000,000.00	Stock capital	1.50%
Office renovation of Baidi	—	Stock capital	—
Baidi GMP renovation project	—	Stock capital	—
Huanye development zone office building	323,120.00	Working capital	76.42%
Huanye solid preparation workshop project	4,738,900.00	Working capital	32.23%
Huanye development zone testing	115,500.00	Working capital	100%
Treatment & renovation of Huanye before plantation	304,153.06	Working capital	179%
Renovation of Huanye Fangcun district	—	Working capital	—
Huanye sewage treatment project	1,100,000.00	Working capital	8%
Huanye raw material workshop project	4,198,100.00	Working capital	18.80%
Renovation of Pangaoshou workshop	2,500,000.00	Working capital	85.68%

(2) Changes in construction work in progress during the current year are as follows:

Project	Opening balance	Addition	Transferred to fixed asset	Other reduction	Ending balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	136,019,083.45	14,196,694.02	132,886,963.76	—	17,328,813.71
Xingqun Manufacture workshop project at phase 3	4,498,512.02	9,347,739.15	13,846,251.17	—	—
Xingqun Repair workshop project at phase 2	33,636.64	361,866.12	—	—	395,502.76
Zhong Yi relocation of Yunpu workshop	23,172,973.19	4,939,611.40	—	—	28,112,584.59
Zhong Yi dust cleaning project	80,000.00	—	—	—	80,000.00
Relocation and expansion of Chenliji factory	3,320,038.08	322,578.00	1,280,461.82	—	2,362,154.26
Chinese medicine absorbing base of Chenliji	7,692.00	—	—	—	7,692.00
Chenliji product technical alteration	9,909,891.37	1,688,897.50	—	—	11,598,788.87
Chenliji product show room	29,400.00	31,511.00	—	—	60,911.00
Hanfang equipment installation project	2,029,731.25	2,289,225.75	1,437,438.50	34,403.50	2,847,115.00
Hanfang conghua base construction	1,686,180.99	280,793.26	—	—	1,966,974.25
Jingxiutang Prepayment for equipment	1,641,085.18	2,432,827.50	196,016.00	—	3,877,896.68
Jingxiutang Anbike equipment installed	50,000.00	—	—	—	50,000.00
Jingxiutang suppository production line	7,631,363.06	2,412,416.17	3,756,554.80	—	6,287,224.43
Jingxiutang Zhweifengtouguwan production line	7,985,355.32	572,193.61	1,545,354.14	—	7,012,194.79
Jingxiutang GMP upgrade project	1,080,040.06	752,824.10	—	—	1,832,864.16
Jingxiutang Wanhua you GMP upgrade project	1,152,200.00	1,160,449.23	271,200.00	—	2,041,449.23
Pangaoshou GMP upgrade project	7,427,043.52	21,783,704.52	40,125.94	—	29,170,622.10
Pangaoshou office in Fujian Building	80,000.00	—	80,000.00	—	—
Pangaoshou office equipment installed	45,800.00	—	45,800.00	—	—
Pangaoshou transportation vehicle	532,200.00	618,677.40	1,150,877.40	—	—
Yangcheng pill workshop	—	100,000.00	—	—	100,000.00
Alteration of Yangcheng central checking room	—	112,221.08	112,221.08	—	—
Yangcheng inter-factory maintenance	170,000.00	23,020.28	140,000.00	53,020.28	—
Yangcheng granules GMP workshop	5,774,285.37	9,950,000.00	—	—	15,724,285.37
Alteration of Yangcheng sewage treatment	11,007.64	77,608.16	—	—	88,615.80
Alteration of Yangcheng boiler project	10,000.00	90,507.96	—	—	100,507.96
Yangcheng Jian Pi Li Chang Pill technology upgrade project	—	799,440.00	799,440.00	—	—
Alteration of Yangcheng distilling workshop technology	649,019.72	—	—	—	649,019.72
Alteration of Yangcheng Ke Gan Li Yan Syrup technology upgrade equipments	—	1,047,676.12	1,047,676.12	—	—
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	8,542,407.42	13,965,788.29	—	1,148,129.30	21,360,066.41
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	—
Caizhilin store in Jiahong Garden	2,179,473.00	—	—	—	2,179,473.00
Caizhilin store in Wanfeng Garden	—	84,500.00	—	—	84,500.00
Chinese Syrup Medicine Factory GMP renovation	—	695,925.45	—	—	695,925.45
ERP project of Guangzhou Pharmaceutical Import & Export Corporation	97,909.45	—	—	—	97,909.45
The first instalment of Yingke software	4,330,352.17	—	4,330,352.17	—	—
Baidi equipment installation	—	1,288,800.00	—	—	1,288,800.00
Baidi equipment installation	2,678,291.02	33,000.00	2,236,170.00	—	475,121.02
Alteration of Baidi Zhongcun scientific research base	—	494,648.46	—	—	494,648.46
Office renovation of Baidi	—	108,867.60	—	—	108,867.60
Baidi GMP renovation project	—	78,612.00	—	—	78,612.00
Huanye development zone office building	402,919.11	78,623.46	234,606.57	—	246,936.00
Huanye solid preparation workshop project	67,928.23	1,487,113.38	27,500.00	—	1,527,541.61
Huanye development zone testing	115,500.00	—	115,500.00	—	—
Treatment \$ renovation of Huanye before plantation	329,967.80	225,225.96	545,225.96	—	9,967.80
Renovation of Huanye Fangcun district	40,000.00	326,914.93	163,984.28	—	202,930.65
Huanye sewage treatment project	—	81,000.00	81,000.00	—	—
Huanye raw materials workshop project	—	1,146,336.72	357,276.57	—	789,060.15
Renovation of Pangaoshou workshop	1,669,072.73	470,337.14	—	—	2,139,409.87
	<u>236,616,437.79</u>	<u>95,958,175.72</u>	<u>166,727,996.28</u>	<u>2,371,631.08</u>	<u>163,474,986.15</u>

(3) Capitalized interest expense included in the construction work in progress is as follows:

Project	Opening balance	Addition	Transferred to fixed asset	Other reduction	Closing balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	13,048,046.72	—	13,048,046.72	—	—
Lofistics in Huangjinwei warehouse of Guangzhou Pharmaceutical Corporation	80,202.80	768,258.40	—	—	848,461.20
Pangaoshou GMP renovation project	—	1,618,482.50	—	—	1,618,482.50
	<u>13,128,249.52</u>	<u>2,386,740.90</u>	<u>13,048,046.72</u>	<u>—</u>	<u>2,466,943.70</u>

(4) The ending balance decreased by 30,91% compared with the opening balance, which mainly resulted from construction work in progress transferred to fixed assets.

14. Intangible assets

(1) Details of intangible assets are as follows:

Items	Acquisition method	Cost	Remaining amortization period (No. of months)	Provision
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	510.00	—
Land use right of Renmin Road factory	Purchase	2,686,602.00	510.00	—
Land use right of No.34 of Guanlv Road	Purchase	40,873.95	474.00	—
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,600,547.00	480.00	—
Land use right of Conggui Road	Purchase	245,477.00	534.00	—
Land use right of No. 77 of Shanmulan	Purchase	199,200.00	563.00	—
Land use right of No. 32 of Duobao Road Changhua New Street, and No. 3 Zhongshanba Road Shilu Jishiguilu Street	Purchase	1,392,144.00	539.00	—
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	482.00	—
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	482.00	—
Land use right at the gate of No. 1688 of Southern Guangzhou Avenue	Purchase	309,175.00	357.00	—
Land use right of Yuanzailing Tangxia Village Chenxiao Town Conghua City	Investment accepted	11,126,000.00	486.00	—
Land use right of Songgang Factory	Purchase	20,417,970.00	475.00	—
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	510.00	—
Land use right of Panyu Dongsha Development District	Purchase	15,947,019.00	528.00	—
Land use right of Guangzhou Baiyun District Jiangcun factory	Purchase	3,463,092.00	409.00	—
Land use right of Shi Er Pu New Street	Purchase	3,509,041.00	409.00	—
Land use right of He Ping West Road	Purchase	1,535,744.00	409.00	—
Land use right of Huang Jin Wei	Purchase	1,051,697.00	364.00	—
Land use right of No.103 of Da Tong Road	Revaluation surplus	17,928,863.00	108.00	—
Land use right of No.328 in Bei Jing Road	Purchase	1,306,988.00	508.00	—
Land use right of A area of Xin Zhou Warehouse	Purchase	1,096,704.00	509.00	—
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	508.00	480,700.24
Land use right of Sai Ba Kou Warehouse	Purchase	402,518.00	450.00	—
Land use right of Chang An Warehouse	Purchase	114,675.00	393.00	—
Land use right of Jiu Fo Warehouse	Purchase	65,136.00	438.00	—
Land use right of No.85 of Shang Jiu Road	Purchase	3,007,932.64	508.00	—
Land use right of No.26 of Hong Chang Street	Purchase	309,046.00	393.00	—
Land use right of No.20 of Bao Hua Bei Road	Purchase	163,591.00	450.00	—
Land use right of No.44 of Bing Jiang Xi Road	Purchase	577,366.00	540.00	—
Land use right of No. 54 XiHua Road	Purchase	21,541.00	253.00	—
Land use right of No.265 Da Xin Road	Purchase	330,153.00	534.00	—
Land use right of No.69 Hong De Road	Purchase	58,567.64	527.00	—
Land use right of No.1 of Shan Yuan 3rd Street	Purchase	37,120.00	666.00	—
Land use right of No.22 of Guang Zhi Road	Purchase	109,032.00	666.00	—
Land use right of No.29 of Tong Fu Zhong Long Dao Road	Purchase	27,045.00	666.00	—
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	527.00	—
Land use right of No.33 of Chi Gang Zhong Road Chi Gang North Street	Investment accepted	1,755,288.00	516.00	—
Land use right of Panyu Dongsheng Factory	Purchase	2,896,279.62	486.00	—
Purchase of technology for new medicines	Purchase	1,000,000.00	120.00	—
Medicine recipe and techniques	Investment accepted	338,640.00	42.00	—
Proprietary technology of Luoxuanzao	Purchase	500,000.00	78.00	—
ERP software	Purchase	460,000.00	23.00	—
Langcheng Financial Software	Purchase	1,649,746.91	57.00	485,451.22
		<u>139,881,279.66</u>		<u>966,151.46</u>

(2) Changes in intangible assets during the current period are detailed below:

Item	Opening balance	Addition	Amortisation	Accumulative amortisation	Ending balance
Land use right of Nanzhou Road factory	3,875,255.85	—	44,188.73	469,978.88	3,831,067.12
Land use right of Renmin Road factory	2,365,584.82	—	27,414.33	348,431.51	2,338,170.49
Land use right of No.34 of Guanlv Road	35,531.27	—	445.17	5,787.85	35,086.10
Land use right of No.19-29 of Ningxiheng Street	1,390,974.72	—	18,547.26	228,119.53	1,372,427.47
Land use right of Conggui Road	220,929.32	—	2,454.77	27,002.45	218,474.56
Land use right of No. 77 of Shanmulan	188,908.00	—	1,992.00	12,284.00	186,916.00
Land use right of No. 32 of Duobao Road Changhua New Street, and No. 3 Zhongshanba Road Shilu Jishigui Street	1,196,782.00	73,678.00	34,332.00	156,016.00	1,236,128.00
Land use right of No. 194 of Beijing Road	2,151,148.77	—	23,625.81	235,058.12	2,127,522.96
Land use right of No. 1688 of Southern Guangzhou Avenue	24,125,515.36	—	270,061.74	3,150,720.30	23,855,453.62
Land use right at the gate of No. 1688 of Southern Guangzhou Avenue	251,801.95	16,643.02	3,091.75	43,821.78	265,353.22
Land use right of Yuanzailing Tangxia Village Chenxiao Town Conghua City	—	11,126,000.00	92,716.68	92,716.68	11,033,283.32
Land use right of Songgang Factory	1,820,381.37	—	22,797.26	18,620,385.89	1,797,584.11
Land use right of Nanhai Huangqi	3,703,220.86	—	432,272.66	819,051.80	3,270,948.20
Land use right of Panyu Dongsha Development Distric	14,051,869.00	—	159,471.00	2,054,621.00	13,892,398.00
Land use right of Guangzhou Baiyun District Jiangcun factory	3,153,970.17	—	35,437.86	344,559.69	3,118,532.31
Land use right of Shi Er Pu New Street	3,279,846.75	—	47,419.50	276,613.75	3,232,427.25
Land use right of He Ping West Road	1,435,436.48	—	20,753.28	121,060.80	1,414,683.20
Land use right of Huang Jin Wei	983,004.99	—	14,212.14	82,904.15	968,792.85
Land use right of No.103 of Da Tong Road	15,287,410.16	—	247,636.20	2,889,089.04	15,039,773.96
Land use right of No.328 in Bei Jing Road	1,135,445.93	—	19,060.23	190,602.30	1,116,385.70
Land use right of A area of Xin Zhou Warehouse	938,794.64	—	10,967.04	168,876.40	927,827.60
Land use right of B area of Xin Zhou Warehouse	2,307,494.74	—	21,241.80	389,888.06	2,286,252.94
Land use right of Sai Ba Kou Warehouse	344,561.48	—	4,025.16	61,981.68	340,536.32
Land use right of Chang An Warehouse	96,889.37	—	1,274.16	19,059.79	95,615.21
Land use right of Jiu Fo Warehouse	54,128.97	—	814.20	11,821.23	53,314.77
Land use right of No.85 of Shang Jiu Road	2,150,772.25	361,514.33	33,038.46	528,684.52	2,479,248.12
Land use right of No.26 of Hong Chang Street	264,547.69	—	3,090.48	47,588.79	261,457.21
Land use right of No.20 of Bao Hua Bei Road	135,946.78	—	2,044.86	29,689.08	133,901.92
Land use right of No.44 of Bing Jiang Xi Road	487,818.92	—	6,415.14	95,962.22	481,403.78
Land use right of No. 54 XiHua Road	19,602.40	—	215.40	2,154.00	19,387.00
Land use right of No.265 Da Xin Road	290,534.64	—	3,301.53	42,919.89	287,233.11
Land use right of No.69 Hong De Road	57,321.52	—	1,246.12	2,492.24	56,075.40
Land use right of No.1 of Shan Yuan 3rd Street	32,866.88	—	1,362.93	5,616.05	31,503.95
Land use right of No.22 of Guang Zhi Road	96,538.85	—	464.08	12,957.23	96,074.77
Land use right of No.29 of Tong Fu Zhong Long Dao Road	23,945.77	—	337.97	3,437.20	23,607.80
Land use right of No.12 of Fangcun Sai Ba Road	1,568,821.87	—	17,645.22	213,346.25	1,551,176.65
Land use right of No.33 of Chi Gang Zhong Road Chi Gang North Street	1,614,863.96	—	17,551.88	157,975.92	1,597,312.08
Land use right of Panyu Dongsheng Factory	2,146,382.01	181,818.29	30,390.60	598,469.92	2,297,809.70
Purchase of technology for new medicines	—	1,000,000.00	8,333.33	8,333.33	991,666.67
Medicine recipe and techniques	156,360.00	—	13,020.00	195,300.00	143,340.00
Proprietary technology of Luoxuanzao	199,920.00	—	24,990.00	325,070.00	174,930.00
ERP software	222,333.33	—	46,000.00	283,666.67	176,333.33
Langcheng Financial Software	871,253.94	—	233,806.28	1,012,299.25	637,447.66
	<u>94,734,717.78</u>	<u>12,759,653.64</u>	<u>1,999,507.00</u>	<u>34,386,415.24</u>	<u>105,494,864.42</u>

As the recoverable amount is lower than the book amount, the Group has made a provision for the difference.

15. Long-term prepaid expense

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

Item	Amortization period	Cost	Remaining amortization period
Improvements	5 years	33,431,187.34	1-5 years
Expenditure on leasehold improvement	5 years	1,982,790.62	Due
Installation of telephone	5 years	2,909,259.26	4 years and 6 months
Maintenance expenditure on fixed assets	5 years	12,160,806.94	1-5 years
Revaluation surplus of H shares	5 years	8,199,065.99	Due
ERP system	5 years	6,647,522.78	1-3 years
Usage right of utilities	5 years	383,780.04	4 years and 6 months
GMP project improvement	5 years	4,426,817.44	6 months
Computer system	5 years	5,675,948.31	2-4 years
Medical fund for retired staff	5 years	2,574,315.90	3 years
Transitional labor insurance for post employment	10 years	3,209,492.36	9 years
Labor insurance premium	5 years	417,623.11	Due
Others	2-5 years	5,378,159.71	1-4 years
		<u>87,396,769.80</u>	

(2) Changes in Long-term Deferred Expense during the current period are detailed below:

Item	Opening balance	Addition	Amortisation	Accumulative amortisation	Ending balance
Improvements	17,108,045.83	2,183,207.71	3,424,241.10	17,564,174.90	15,867,012.44
Expenditure on leasehold improvement	231,192.50	—	231,192.50	1,982,790.62	—
Installation of telephone	152,859.00	152,859.26	152,859.00	2,756,400.00	152,859.26
Maintenance expenditure on fixed assets	5,104,460.57	5,321,526.55	946,449.70	2,681,269.52	9,479,537.42
Revaluation surplus of H shares	195,927.46	—	195,927.46	8,199,065.99	—
ERP system	1,926,353.84	1,869,427.96	1,081,914.48	3,933,655.46	2,713,867.32
Usage right of utilities	0.00	383,780.04	50,058.24	50,058.24	333,721.80
GMP project improvement	351,528.60	—	111,009.00	4,186,297.84	240,519.60
Computer system	1,506,826.80	—	1,142,540.46	5,311,661.97	364,286.34
Medical fund for retired staff	1,410,759.11	159,815.90	222,981.98	1,226,722.87	1,347,593.03
Transitional labor insurance for post employment	2,897,121.96	159,815.90	144,068.70	296,623.20	2,912,869.16
Labor insurance premium	250,573.93	—	250,573.93	417,623.11	—
Others	1,953,742.85	148,616.99	1,152,757.38	4,428,557.25	949,602.46
	<u>33,089,392.45</u>	<u>10,379,050.31</u>	<u>9,106,573.93</u>	<u>53,034,900.97</u>	<u>34,361,868.83</u>

16. Short-term loans

	Ending balance	Opening balance
Loan by credit	45,000,000.00	—
Pledged loans	135,000,000.00	123,590,000.00
Guaranteed loans	370,540,000.00	431,750,000.00
	<u>550,540,000.00</u>	<u>555,340,000.00</u>

17. Notes payable

Ending balance included bank acceptance amounting to Rmb76, 313,645.72 and commercial acceptance amounting to Rmb9, 895,654.30.

18. Accounts payable

Of the ending balance aforementioned, no current account is due to shareholders, which have a 5% or more shareholding.

19. Advances to Suppliers

Of the ending balance aforementioned, no advance has been paid to shareholders that have a 5% or more shareholding.

20. Dividend payable

	Ending balance	Reason for non settlement
Overseas public shares	9,935.83	Payable dividend of 2002
Domestic public shares	610,713.37	Payable dividend of 2001 and 2002
	<u>620,649.20</u>	

The ending balance increased by 98.74% compared with the opening balance. The reason is that the Company distributed dividend for 2002 during the reporting period.

21. Taxes payable

	Ending balance	Opening balance
Business tax	378,449.67	740,573.03
Value added tax	10,468,039.63	1,333,586.80
City construction tax	1,018,903.46	1,003,648.19
Enterprise income tax	22,822,498.90	42,033,131.60
Property tax	935,595.10	284,122.75
Withholding tax	540,823.03	3,218,901.49
Others	1,219,574.62	159,665.03
	<u>37,383,884.41</u>	<u>48,773,628.89</u>

22. Other liabilities

	Note	Ending balance
Education surcharge	(1)	396,680.70
Flood prevention levy	(2)	4,140,762.12
Others		69,131.14
		<u>4,606,573.96</u>

(1) Paid at 3% of the payable amount of VAT, Business tax and consumption tax.

(2) Paid at 1.3% of the amount of income on which the VAT, Business tax, Consumption tax and resource tax are based.

23. Other payables

	Ending balance	Opening balance
Deposit	8,379,105.93	8,780,521.04
Technology improvement	4,848,410.94	5,768,611.34
Rental	104,390.39	390,321.04
Labor union fund	870,974.01	1,052,161.41
Staff education fund	10,531,613.00	9,813,531.62
Current account due to external company	63,326,150.60	51,578,116.68
Tax addition and government levies	319,776.95	1,556.10
Advance from staff	2,064,840.56	640,345.21
Labor insurance	561,995.84	609,183.24
Pension and medical insurance	4,895,580.08	6,473,607.43
Allowance of staff housing	1,170,695.10	2,051,227.59
Centralization fund	12,631,803.48	14,212,615.04
Operator incentive fund	4,767,594.00	5,522,549.41
Amount due to related parties	14,679,944.91	10,806,457.07
Others	7,183,374.20	6,368,891.68
	136,336,249.99	124,069,695.90

Among the other payable accounts, the amount due to the Holding, which holds over 5% of the total share, amounts to Rmb12, 782,304.23.

24. Accrued expenses

	Ending balance	Opening balance
Rent	415,312.49	539,648.30
Interest on loan	309,491.24	683,341.90
Insurance	600,000.00	—
Audit fee	—	3,250,000.00
Maintenance	2,370,000.00	—
Water & electricity	335,739.82	6,200.00
Advertising	5,200,000.00	—
R&D	2,200,000.00	—
Housing allowance	1,200,000.00	—
Property tax for used buildings	550,000.00	—
Advance to salesman	1,200,000.00	—
Others	555,025.68	145,916.62
	14,935,569.23	4,625,106.82

25. Long-term liabilities due within one year

The balance of the long-term liabilities due within one year is loan by credit amounting to Rmb10, 000,000.00.

26. Long-term loans

	Period	Annual interest rate	Ending balance	Condition
ICBC Guangzhou 1st Branch	From 29 November 2002 to 28 November 2004	5.49%	20,000,000.00	Credit
ICBC Guangzhou Shisanhang Branch	From 6 January 2003 to 6 January 2006	5.49%	59,500,000.00	Mortgage
Industrial & Commercial Bank of China Liwan Branch	From 2 December 2002 to 1 December 2005	5.49%	27,680,000.00	Guarantee
			<u>107,180,000.00</u>	

27. Long-term payables

Creditor	Nature	Ending balance	Opening balance
Guangzhou Financial Bureau	Dividend of state owned share	2,732,919.49	2,732,919.49
Others		861,951.99	886,978.12
		<u>3,594,871.48</u>	<u>3,619,897.61</u>

28. Share Capital

Item	Opening balance	Addition	Reduction	Ending 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>

29. Capital Surplus

	Opening balance	Addition	Reduction	Ending balance
Share premium	912,565,150.29	—	—	912,565,150.29
Provision for donation in the form of non-cash assets	1,773,107.29	—	—	1,773,107.29
Donation in the form of cash	219,652.84	—	—	219,652.84
Provision for equity investment	—	—	—	—
Transfer from appropriation	14,206,086.32	—	—	14,206,086.32
Other capital surplus	185,196,334.81	3,618,352.18	—	188,814,686.99
Exchange gain on foreign currency capital	373,893.09	—	—	373,893.09
	<u>1,114,334,224.64</u>	<u>3,618,352.18</u>	<u>—</u>	<u>1,117,952,576.82</u>

The addition represented the capital surplus the Company entitled, which is due from new shareholders' capital contribution surplus in one subsidiary, Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd. in April 2003.

30. Reserved fund

	Opening balance	Addition	Reduction	Ending balance
Statutory reserve fund	160,635,151.61	—	—	160,635,151.61
Statutory public welfare fund	109,728,912.38	—	—	109,728,912.38
Discretionary reserve fund	61,092,288.10	—	—	61,092,288.10
Transfer from tax exemption	4,973,493.07	—	—	4,973,493.07
	<u>336,429,845.16</u>	<u>—</u>	<u>—</u>	<u>336,429,845.16</u>

31. Sales revenue

	Six months ended 30th June 2003	Six months ended 30th June 2002
(1) Manufacturing and selling	970,508,937.38	929,306,471.83
(2) Trading		
Wholesale	2,315,061,620.04	1,852,312,482.61
Retail	190,793,506.00	161,940,074.86
Import & export sales	101,068,415.54	57,323,874.07
	<u>2,606,923,541.58</u>	<u>2,071,576,431.54</u>
	<u>3,577,432,478.96</u>	<u>3,000,882,903.37</u>

Sales of the top five customers amount to Rmb155,271,558.60 and represent 4.34% of the total net sales.

32. Cost of goods sold

	Six months ended 30th June 2003	Six months ended 30th June 2002
(1) Manufacturing and selling	451,383,776.89	420,362,233.56
(2) Trading		
Wholesale	2,169,596,683.70	1,720,820,644.60
Retail	144,714,174.62	122,438,070.22
Import & export sales	95,099,512.19	53,301,069.57
	<u>2,409,410,370.51</u>	<u>1,896,559,784.39</u>
	<u>2,860,794,147.40</u>	<u>2,316,922,017.95</u>

33. Sales tax and levies

	Six months ended 30th June 2003	Six months ended 30th June 2002
Business tax	536,409.93	425,833.83
City construction tax	8,514,120.86	9,168,398.15
Land appreciation tax	—	692.29
Education surcharge	3,560,332.71	3,558,659.34
Others	9,904.90	429,682.56
	<u>12,620,768.40</u>	<u>13,583,266.17</u>

34. Profit from other operations

	Six months ended 30th June 2003	Six months ended 30th June 2002
(1) Income from other operations		
Assets leased	16,487,004.54	14,198,938.94
Sales of material	491,483.77	2,556,644.63
Income from storage and conference	2,280,906.04	1,230,325.12
Income from import agent service	316,062.27	—
Income from product propaganda	—	1,332,947.70
Income from consultation	1,772,101.10	1,452,580.90
Others	1,213,395.50	2,009,287.71
	<u>22,560,953.22</u>	<u>22,780,725.00</u>
(2) Cost from other operating		
Assets leased	2,072,668.39	2,300,535.43
Sales of material	145,172.00	2,157,866.72
Tax & surcharge	397,116.88	78,329.97
Housing service	101,992.74	342,088.34
Service charge	9,730.53	—
Others	386,362.34	487,130.66
	<u>3,113,042.88</u>	<u>5,365,951.12</u>
	<u>19,447,910.34</u>	<u>17,414,773.88</u>

35. Financial expenses

	Six months ended 30th June 2003	Six months ended 30th June 2002
Net interest expense	8,782,710.66	7,084,001.57
Net exchange loss	—	42,636.36
Bank charges	963,079.87	401,531.95
Others	164.04	6,629.26
	<u>9,745,954.57</u>	<u>7,534,799.14</u>

36. Investment income

	Six months ended 30th June 2003	Six months ended 30th June 2002	
Stock investment	Cost method	566,156.16	1,746,046.57
Other investment	Cost method	280,536.31	380,527.12
	Equity method	(1,820,286.80)	(2,665,295.13)
Debt investment		850,220.62	—
	<u>(123,373.71)</u>	<u>(538,721.44)</u>	

The investment income increased 77.10% compared with the same period of 2002. The increase is due to reverse of part of investment provision for stock and debt at the beginning of 2003.

37. Subsidy income

- (1) Subsidy income in the current period includes export tax refunds amounting to Rmb180,927.28.
- (2) Subsidy income increased 161.01% compared with the same period of 2002, which was resulted from the increase of export tax refunds.

38. Non-operating income

	Six months ended 30th June 2003	Six months ended 30th June 2002
Net profit from disposal of fixed assets	120,763.26	97,374.47
Sales of obsolete material	45,412.46	12,770.32
Fines	11,367.20	18,021.73
MTR removal compensation	182,928.86	547,162.03
Creditors written off	489.81	2,031.93
Others	303,682.94	373,406.61
	664,644.53	1,050,767.09

Non-operating income decreased 36.75% compared with the period of 2002, which mainly resulted from the decrease of MTR removal compensation.

39. Non-operating expenses

	Six months ended 30th June 2003	Six months ended 30th June 2002
Net loss on disposal of fixed assets	2,912,859.00	1,213,551.70
Donation	1,470,372.09	524,343.88
Fines	90,328.92	132,547.63
Late fee	17,142.84	—
Exceptional loss	3,396.33	100.00
Urban dyke protection expenses	4,376,577.42	1,471,852.84
Family control bonus	564,728.97	390,117.56
Provision for fixed assets impairment	—	7,886,983.79
Others	77,066.63	1,608,814.74
	9,512,472.20	13,228,312.14

40. Other cash received relating to operating activities

	Amount
Appropriation from Finance Bureau	3,000,000.00
Interest from bank deposit	8,929,974.78

41. Cash paid relating to other operating activities

	Amount
Advertising	111,279,020.87
Insurance premium	36,978,516.69
Freight	23,041,092.22
Rental	15,008,118.45
Technology development	12,649,981.70
Entertainment	11,252,778.12
Conference	11,160,474.95
Traveling	10,759,605.43
Maintenance	7,152,555.91
Office expenses	5,668,463.82
Agency fee	5,051,889.70
Transportation	2,425,492.59
Utilities	1,870,411.82
Properties insurance	1,549,700.51

VII Notes to the Accounts of the Parent Company (All amounts are stated in Rmb Yuan unless otherwise stated)

1 Other receivables

	Ending balance			Opening balance		
	Balance	%	Provision	Balance	%	Provision
Within 1 year	79,463,255.04	22.97%	—	25,411,541.19	8.88%	—
1 - 2 years	42,314,732.55	12.23%	—	119,059,174.05	41.60%	—
2 - 3 years	134,967,309.17	39.01%	—	63,853,054.95	22.31%	—
3 - 4 years	29,018,746.19	8.39%	—	76,443,870.77	26.71%	—
4 - 5 years	49,443,870.77	14.29%	—	1,425,486.08	0.50%	401,634.83
Over 5 years	10,802,843.54	3.12%	401,634.83	800.00		—
	<u>346,010,757.26</u>	<u>100.00%</u>	<u>401,634.83</u>	<u>286,193,927.04</u>	<u>100.00%</u>	<u>401,634.83</u>

Including an amount of Rmb6,479,270.91 due from the Holding.

2 Long-term investments

Name of investee	% equity held	Balance as at 30 June 2002	Original investment	Increase (decrease) in equity in current period	Accumulated increase (decrease) in equity
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	88.99%	171,288,735.11	125,322,318.71	7,702,917.02	45,966,416.40
Kwang Chow First Chinese Medicine Company Limited	90.36%	272,920,103.57	156,209,321.79	(10,824,987.43)	116,710,781.78
Guangzhou Chen Li Ji Chinese Medicine Factory	100.00%	175,891,792.73	98,465,344.60	(7,431,787.08)	77,426,448.13
Guangzhou Qi Xing Pharmaceutical Factory	100.00%	156,270,411.40	126,775,482.62	1,450,498.90	29,494,928.78
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	88.40%	89,682,220.69	101,489,814.94	6,397,312.95	(11,807,594.25)
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	87.77%	163,358,078.60	144,298,132.51	1,934,544.73	19,059,946.09
Guangzhou Yang Cheng Pharmaceutical Co., Ltd.	92.48%	125,084,396.84	102,035,124.44	1,613,544.07	23,049,272.40
Guangzhou Pharmaceutical Corporation	90.09%	338,144,926.27	230,189,155.53	(314,000.99)	107,955,770.74
Guangzhou Chinese Medicine Corporation	100.00%	97,201,421.42	69,051,978.34	3,844,016.43	28,149,443.08
Guangzhou Pharmaceutical Import & Export Corporation	100.00%	19,473,800.53	17,957,328.73	500,462.04	1,516,471.80
Guangzhou Baidi Bio-medicine Co., Ltd.	92.80%	42,025,834.73	46,400,000.00	(2,073,440.70)	(4,532,761.31)
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	54.03%	38,909,165.40	45,000,000.00	1,062,263.11	(6,090,834.60)
Guangzhou Huanye Medicine Manufacturing Co., Ltd	59.70%	15,535,367.98	15,331,246.76	(1,340,327.07)	(738,602.91)
Nanhai Nanfang Packing Company Limited	21.42%	30,000,000.00	30,000,000.00	—	—
Jihua Pharmaceutical Apparatus Company Limited	24.00%	2,171,342.34	3,000,000.00	(218,324.19)	(828,657.66)
Everbright Bank	0.30%	10,725,000.00	10,725,000.00	—	—
Jinying Fund Management Co., Ltd	20.00%	18,427,641.32	20,000,000.00	(1,572,358.68)	(1,572,358.68)
Guoyao group industrial Co., Ltd	10.00%	8,000,000.00	8,000,000.00	—	—
Guangzhou Jin Sheng Pharmaceutical Co., Ltd	45.00%	675,000.00	675,000.00	—	—
Total		1,775,785,238.93	1,350,925,248.97	730,333.11	423,758,669.79

3 Investment income

	Six months ended 30th June 2003	Six months ended 30th June 2002
Stock investment	566,156.16	1,636,200.00
Debt investment	850,220.61	—
Long-term equity investment	104,253,631.37	107,430,656.54
	105,670,008.14	109,066,856.54

VIII Segmental Information

Segment	Turnover		Cost of sales		Profit from principal activities	
	Six months ended 30th June 2003	Six months ended 30th June 2002	Six months ended 30th June 2003	Six months ended 30th June 2002	Six months ended 30th June 2003	Six months ended 30th June 2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Manufacturing:	970,509	929,307	451,384	420,362	519,125	508,945
Trading:	2,606,923	2,071,576	2,409,410	1,896,560	197,513	175,016
Wholesale	2,315,062	1,852,312	2,169,597	1,720,821	145,465	131,491
Retail	190,793	161,940	144,714	122,438	46,079	39,502
Import and export	101,068	57,324	95,099	53,301	5,969	4,023
Total	3,577,432	3,000,883	2,860,794	2,316,922	716,638	683,961

Unit: Rmb'000

IX Related Party Relationships & Transactions

1. Related parties with substantial control

Name	Registered address	Principle business	Relationship with the Company	Economic nature and 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
Kwang Chow First Chinese Medicine Factory	77 Shanmulan Road Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	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	Shi Shaobin
Guangzhou Pharmaceutical Corporation	97 Datong Road, Guangzhou	Wholesale and retail	Subsidiary	Company with limited liabilities	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 Faangcun Dadao East, Fangcun District, Guangzhou	Production & Sales	Subsidiary	Company with limited liabilities	Feng Jinglin
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd	134 Jiangnan Dadao Central, Haizhu District, Guangzhou	Wholesale, Research & Development	Subsidiary	Company with limited liabilities	Zhou Yuejin
Guangzhou Baidi Bio-medicine Co., Ltd	Room 412, 134 Jiangnan Dadao Central, Haizhu District Guangzhou	Wholesale, 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	Opening balance	Increase during the year	Decrease during the year	Ending balance
Guangzhou Pharmaceutical Holdings Company Limited	1,007,700	—	—	1,007,700
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	77,170	—	—	77,170
Kwang Chow First Chinese Medicine Factory	166,000	—	—	166,000
Guangzhou Chen Li Ji Chinese Medicine Factory	94,000	—	—	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 Corporation	222,000	—	—	222,000
Guangzhou Chinese Medicine Corporation	69,700	—	—	69,700
Guangzhou Pharmaceutical Import & Export Corporation	15,000	—	—	15,000
Guangzhou Huanye Medicine Manufacturing Co., Ltd	6,000	—	—	6,000
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd	50,000	33,280	—	83,280
Guangzhou Baidi Bio-medicine Co., Ltd	50,000	—	—	50,000

3. Changes in shareholding or equity interests held by related parties with substantial control

Unit: Rmb '000

Name %	Opening balance	%	Increase during the year	%	Decrease during the year	%	Ending balance	%
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
Kwang Chow First Chinese Medicine Factory	150,000	90.36	—	—	—	—	150,000	90.36
Guangzhou Chen Li Ji Chinese Medicine Factory	94,000	100	—	—	—	—	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 Corporation	200,000	90.09	—	—	—	—	200,000	90.09
Guangzhou Chinese Medicine Corporation	69,700	100	—	—	—	—	69,700	100
Guangzhou Pharmaceutical Import & Export Corporation	15,000	100	—	—	—	—	15,000	100
Guangzhou Huanye Medicine Manufacturing Co., Ltd	3,580	59.70	—	—	—	—	3,580	59.70
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd	45,000	90.00	—	—	35.97	—	45,000	54.03
Guangzhou Baidi Bio-medicine Co., Ltd	46,400	92.80	—	—	—	—	46,400	92.80

4. Related party transactions

(1) Relationships 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 Tianxi 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
Guangzhou 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
Guangzhou Baiyunshan Medical Technology Development Company Limited	Fellow subsidiary

(2) Purchase of goods

Name	<i>Unit: Rmb '000</i>	
	Six months ended 30th June 2003	Six months ended 30th June 2002
Guangzhou Qiaoguang Pharmaceutical Factory	10,665	88,165
Guangzhou Mingxing Pharmaceutical Factory	13,921	8,849
Guangzhou Tianxi Pharmaceutical Company Limited	2,937	3,919
Guangzhou Hejigong Factory	1,488	841
Guangzhou Guanghua Pharmaceutical Company Limited	13,657	14,084
Guangzhou Sanitation Production Factory	2,261	1,522
Guangzhou South-china Medical Appliance Co., Ltd	71	49
Guangzhou Pharmaceutical Holdings Limited		
Yingbang Marketing Co., Ltd.	21,774	17,751
Guangzhou Pharmaceutical Goods and Supply Company	—	157
Baolian Development Company Limited	12,765	10,139
Guangzhou Baiyunshan Enterprise Group	258	—
Guangzhou Baiyunshan Pharmaceutical Factory	219	160
Guangzhou Baiyunshan Chinese Medicine Factory	1,417	135
Guangzhou Baiyunshan Medical Technology Development Company Limited	—	640
Guangzhou Baiyunshan External Use Medicine Factory	—	150
	81,434	66,561

All the above purchases are either based on the price as approved by the State or are based on the pricing method as set in accordance with the regulation of the State.

(3) Sales of goods

Name	Unit: Rmb '000	
	Six months ended 30th June 2003	Six months ended 30th June 2002
Guangzhou Qiaoguang Pharmaceutical Factory	16,114	16,491
Guangzhou Mingxing Pharmaceutical Factory	14	2,650
Guangzhou Tianxin Pharmaceutical Company Limited	7,584	3,470
Guangzhou Hejigong Factory	963	224
Guangzhou Guanghua Pharmaceutical Company Ltd.	64	391
Guangzhou Sanitation Production Factory	690	—
Guangzhou South-China Medical Apparatus Company Limited	1	—
Guangzhou Pharmaceutical Goods and Supply Company	—	357
Guangzhou Pharmaceutical Holdings Limited Yingbang Marketing Co., Ltd.	8,698	7,827
Guangzhou Pharmaceutical Economic Development Company	99	1,414
Guangzhou Zhongfu Medical Company Limited	1,007	—
Guangzhou Xinhua Health Drinks Company Limited	551	—
Guangzhou Pharmaceutical Research Institute	24	—
Guangzhou Baiyunshan Pharmaceutical Factory	13,347	—
Guangzhou Baiyunshan Chinese Medicine Factory	720	—
	<u>49,876</u>	<u>32,824</u>

All the above purchases are either based on the price as approved by the State or are based on the pricing method as set in accordance with the regulation of the state.

(4) Receivables and payables

Name	<i>Unit: Rmb'000</i>	
	Ending balance	Opening balance
Receivables		
Guangzhou Qiaoguang Pharmaceutical Factory	9,281	7,237
Guangzhou Mingxing Pharmaceutical Factory	2	2
Guangzhou Tianxin Pharmaceutical Company Limited	—	918
Guangzhou Hejigong Factory	273	17
Guangzhou Guanghua Pharmaceutical Company Ltd.	100	337
Guangzhou Sanitation Production Factory	925	1,142
Guangzhou Pharmaceutical Holdings Limited		
Yingbang Marketing Co., Ltd.	4,009	3,507
Guangzhou Zhongfu Medical Company Limited	118	477
Guangzhou Xinhua Health Drinks Company Limited	1,625	1,380
Guangzhou Beiyunshan Enterprise Group	2,108	6,414
Guangzhou Beiyunshan Pharmaceutical Factory	4,740	—
Guangzhou Baiyunshan Chinese Medicine Factory	390	370
Payables		
Guangzhou Qiaoguang Pharmaceutical Factory	137	20
Guangzhou Mingxing Pharmaceutical Factory	72	59
Guangzhou Tianxin Pharmaceutical Company Limited	12	322
Guangzhou Hejigong Factory	32	127
Guangzhou Guanghua Pharmaceutical Company Ltd.	789	584
Guangzhou Sanitation Production Factory	124	345
Guangzhou South-China Medical Apparatus Company Limited	13	—
Guangzhou Pharmaceutical Goods and Supply Company	22	—
Guangzhou Pharmaceutical Holdings Limited		
Yingbang Marketing Co., Ltd.	1,377	517
Baolian Development Company Limited	8,262	3,311
Guangzhou Beiyunshan Enterprise Group	36	—
Guangzhou Beiyunshan Pharmaceutical Factory	10	—
Guangzhou Baiyunshan Chinese Medicine Factory	184	24
Other receivables:		
Guangzhou Pharmaceutical Holdings Company Limited	8,050	8,130
Guangzhou Qiaoguang Pharmaceutical Factory	—	197
Guangzhou Pharmaceutical Machinery Factory	—	33
Guangzhou Sanitation Production Factory	54	—
Guangzhou South-China Medical Apparatus Company Limited	100	100
Guangzhou Pharmaceutical Holdings Limited		
Yingbang Marketing Co., Ltd.	5,030	5,030
Baolian Development Company Limited	8,411	5,796
Guangzhou Zhongfu Medical Company Limited	17	—
Guangzhou Xinhua Health Drinks Company Limited	3,250	3,400
Guangzhou Pharmaceutical Research Institute	2,000	2,000
Other payables		
Guangzhou Pharmaceutical Holdings Company Limited	12,782	10,806
Guangzhou Pharmaceutical Goods and Supply Company	1,024	1,024
Guangzhou Pharmaceutical Research Institute	874	—
Guangzhou Qiaoguang Pharmaceutical Factory	—	36

(5) Provision or receipt of services

Item	Notes	Unit: Rmb'000	
		Six months ended 30th June 2003	Six months ended 30th June 2002
Service fee on staff quarters	[1]	198	164
Welfare facilities	[2]	426	364
		<u>624</u>	<u>528</u>

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

Note 2 Pursuant to the Composite Services Agreement entered into by the Company and 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 in the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Service Agreement will expire on 31 December 2007.

(6) Rental

Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and 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 Rmb1, 297,000 for the period (2002: Rmb1, 321,000)

(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 Rmb3, 536,000 for the period (2002: Rmb3, 140,000)

(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.

(9) The Holding contributed capital into Guangzhou Hanfang Patent Medicine Research & Development Co., Ltd in a form of land use right and machinery which carrying value of approximately RMB25, 630,000, the Holding is entitled to the 30.78% equity interest. The relevant legal registration procedures are in progress.

X Contingent events

Up to 30 June 2003, there are no material contingent events, which should be disclosed.

XI Commitments

As of 30 June 2003, the Group had the following capital commitments

	Six months ended 30th June 2003	Six months ended 30th June 2002
		<i>Unit: Rmb'000</i>
Contracted by not provided for	173,421	219,391
Approved by not contracted for	<u>27,360</u>	<u>68,401</u>

XII Non-adjusting events occurring after the balance sheet date

Up to the reporting date, there are no material non-adjusting events that should be disclosed.

XIII Debt restructuring events

Up to 30 June 2003, there are no debt restructuring events in the Group.

XIV Non-monetary transactions

Up to 30 June 2003, there are no non-monetary transactions in the Group.

XV The analysis of fluctuant items in financial statement

The fluctuant items which coincide with the following conditions are listed as below. The conditions are: Items with variances exceed 30% in the compared combined balance sheet between December 31, 2002 and June 30, 2003, and the variances are over 5% of the total assets as at June 30, 2003 of the Group and; Items with variances exceed 30% of the combined profit and loss account and the variances are over 10% of the Group's profit and loss account for the first six months of year 2003.

Items	30th June 2003	31st December 2002	Variance amount	Unit: Renmibi	
					Percentage
Account receivable (less: bad debt)	1,009,479,818.74	716,482,532.62	292,997,286.12		40.89

Compared with the opening balance, the Ending balance has increased 40.89%. The main reason for this increase is due to 1) the increase of sales, 2) further extension of the hospital's tendering, 3) longer credit terms to hospitals, 4) agents' delayed repayment due to its tighten cash flow during the SARS period.

XVI Explanations for difference of the Group's net assets and net profit prepared in accordance with PRC accounting standards and systems and HKGAAP in the interim financial reports

	<i>Notes</i>	At 30th June 2003 (unaudited) Rmb'000	Restated At 31st December 2002 (audited) Rmb'000
Net assets under PRC accounting standards and systems:		2,384,160	2,286,929
Provision for bad debts	(1)	(30,169)	(31,211)
Intangible asset capitalised	(2)	63,794	69,017
Difference in fixed assets revaluation	(3)	133,795	134,783
Overprovision of research and development cost	(4)	7,290	4,228
Provision for employee benefits	(5)	(70,763)	(71,762)
Deferred taxation	(6)	33,459	34,885
Negative goodwill arising from dilution of interest in a subsidiary	(9)	(3,618)	—
Dividend proposed		—	48,654
Difference in minority interests	(8)	(14,088)	(14,111)
		<hr/> 2,503,860 <hr/>	<hr/> 2,461,412 <hr/>
Net assets under HKGAAP			
	<i>Notes</i>	For the six months ended 30th June 2003 (unaudited) Rmb'000	Restated For the six months ended 30th June 2002 (unaudited) Rmb'000
Net profit under PRC accounting standards and systems:		93,613	106,973
Amortization of deferred expenditure capitalized	(2)	(5,223)	(5,223)
Additional depreciation on difference on revalued fixed assets	(3)	(988)	(988)
Research and development cost overcharged / (undercharged)	(4)	3,062	(4,860)
Donation income recognized		—	227
Provision for employee benefits	(5)	999	—
(Provision)/ reversal of deferred taxation	(6)	(1,426)	4,379
Bad debt recovered	(7)	1,042	—
Difference in minority interests	(8)	23	248
		<hr/> 91,102 <hr/>	<hr/> 100,756 <hr/>
Net profit under HKGAAP			

Explanations for difference:

- (1) This is provision for bad debt made under HKGAAP. However, it has not been taken up in the account prepared under PRC accounting standards and systems.
- (2) This is an amortisation of staff quarters reform costs incurred by the Group prior to 2000 in relation to purchases of staff quarters by its employees. Under HKGAAP, such costs are recognised as an asset and are subject to amortisation 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. Under PRC accounting standards and systems, the staff quarter reform costs are written off against retained earnings when it incurred.
- (3) The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing of the Company's H shares. Although the revaluation has been taken into the accounts of the Group prepared under HKGAAP, this is not acceptable to the accounts prepared under PRC accounting standards and systems. Accordingly, the depreciation charge under HKGAAP is higher than that calculated under PRC accounting standards and systems as the depreciation charge under HKGAAP is based on the revalued amount of fixed assets.
- (4) The Company has made provision for research and development cost based on certain percentage on turnover in the interim report prepared in accordance with PRC accounting standards and systems. However, this provision is not acceptable to HKGAAP, which requires a legal or constructive obligation and a reliable estimate to recognise a provision in the accounts.
- (5) On 1 December 2001, the Group has participated in a medical insurance scheme set up and managed by the Guangzhou Government as required by the Provisional Rules of Medical Insurance issues by the Guangzhou People's Municipal Government. Medical insurance relating to contributions accrued for the past service rendered by the retired and retiring employees are recognized as expenses in prior years under HKGAAP. However, in the financial report prepared under PRC accounting standards and systems, medical insurance for the past service is recognized as expenses on cash basis. Cash basis is not acceptable to HKGAAP.
- (6) The Group has not made provision for deferred tax in the financial report prepared in accordance with PRC accounting standards and systems. Under HKGAAP, deferred tax is accounted for using the balance sheet liability method on all taxable temporary differences for deferred tax liability, and to recognise deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
- (7) This is bad debt recovered from the provision for bad debt made in the account prepared under HKGAAP. The provision for bad debt has not been taken up in the account prepared under PRC accounting standards and systems.
- (8) This is resulted from the above difference in the interim financial report prepared under PRC accounting standards and systems and HKGAAP.
- (9) Negative goodwill arising from dilution of interest in a subsidiary is recognised as capital reserve in the financial report prepared in accordance with PRC accounting standards and systems. Under HKGAAP, negative goodwill should be presented as a deduction from the assets of the reporting enterprise and recognised as income when the future economic benefits embodied in the identifiable depreciable / amortisation assets acquired are consumed.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared in accordance with HKSSAP 25)
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Note	Unaudited Six months ended 30th June	
		2003 RMB'000	Restated 2002 RMB'000
Turnover	2	3,577,432	3,000,883
Cost of sales		(2,860,794)	(2,316,922)
Gross profit		716,638	683,961
Other revenues		27,193	28,737
Distribution, administrative and other operating expenses		(566,426)	(524,912)
Operating profit	3	177,405	187,786
Finance costs		(15,607)	(13,640)
Share of profits less losses of			
Jointly controlled entities		(225)	(339)
Associated companies		161	203
Profit before taxation		161,734	174,010
Taxation	4	(62,227)	(64,875)
Profit after taxation		99,507	109,135
Minority interests		(8,405)	(8,379)
Net profit		91,102	100,756
Transfer to capital reserve		—	(220)
Profit attributable to shareholders		91,102	100,536
Dividends	5	48,654	48,654
Earnings per share	6	RMB0.112	RMB0.124

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared in accordance with HKSSAP 25)
AS AT 30TH JUNE 2003 AND 31ST DECEMBER 2002

	Note	Unaudited 30th June 2003 RMB'000	Restated Audited 31st December 2002 RMB'000
Non-current assets			
Intangible asset		60,176	69,017
Fixed assets and construction in progress	7	1,357,728	1,268,850
Interests in joint ventures		5,983	6,208
Interests in associated companies		3,047	2,930
Investment securities		76,987	77,802
Deferred tax assets	12	80,017	80,758
		<u>1,583,938</u>	<u>1,505,565</u>
Current assets			
Inventories		862,206	848,519
Trade and other receivables	8	1,307,642	983,325
Trading securities		50,463	61,194
Bank balances and cash		892,143	1,019,903
		<u>3,112,454</u>	<u>2,912,941</u>
Current liabilities			
Trade and other payables	9	1,193,468	1,004,416
Current portion of long-term liabilities	10	10,000	—
Taxation payable		37,384	48,774
Short-term bank loans		550,540	555,340
		<u>1,791,392</u>	<u>1,608,530</u>
Net current assets		<u>1,321,062</u>	<u>1,304,411</u>
Total assets less current liabilities		<u>2,905,000</u>	<u>2,809,976</u>
Financed by:			
Share capital		810,900	810,900
Reserves		1,692,960	1,650,512
Shareholders' funds		2,503,860	2,461,412
Minority interests		182,877	150,036
Non-current liabilities			
Long-term liabilities	10	107,180	89,680
Employee benefits	11	64,525	62,975
Deferred tax liabilities	12	46,558	45,873
		<u>2,905,000</u>	<u>2,809,976</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with HKSSAP 25)
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Surplus reserves			Retained earnings RMB'000	Total RMB'000
				Statutory surplus reserve RMB'000	Statutory public welfare fund			
					Discretionary surplus reserve RMB'000	Statutory public welfare fund RMB'000		
At 1st January 2003, as previously reported	810,900	781,134	443,355	160,635	109,729	66,066	83,247	2,455,066
Changes in accounting policy - provision for net deferred tax assets	—	—	(45,130)	—	—	—	51,476	6,346
At 1st January 2003, as restated	810,900	781,134	398,225	160,635	109,729	66,066	134,723	2,461,412
Profit for the period	—	—	—	—	—	—	91,102	91,102
Dividends	—	—	—	—	—	—	(48,654)	(48,654)
At 30th June 2003	<u>810,900</u>	<u>781,134</u>	<u>398,225</u>	<u>160,635</u>	<u>109,729</u>	<u>66,066</u>	<u>177,171</u>	<u>2,503,860</u>

	Unaudited							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Surplus reserves			Retained earnings RMB'000	Total RMB'000
				Statutory surplus reserve RMB'000	Statutory public welfare fund			
					Discretionary surplus reserve RMB'000	Statutory public welfare fund RMB'000		
At 1st January 2002, as previously reported	810,900	780,405	440,151	120,402	92,758	37,861	125,953	2,408,430
Changes in accounting policy - provision for net deferred tax liabilities	—	—	(45,130)	—	—	—	37,548	(7,582)
At 1st January 2002, as restated	810,900	780,405	395,021	120,402	92,758	37,861	163,501	2,400,848
Profit for the period	—	—	—	—	—	—	100,756	100,756
Transfers from retained earnings	—	—	220	—	—	—	(220)	—
Dividends	—	—	—	—	—	—	(48,654)	(48,654)
Refund of share issue expenses	—	729	—	—	—	—	—	729
At 30th June 2002	<u>810,900</u>	<u>781,134</u>	<u>395,241</u>	<u>120,402</u>	<u>92,758</u>	<u>37,861</u>	<u>215,383</u>	<u>2,453,679</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with HKSSAP 25)

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited Six months ended 30th June	
	2003 RMB'000	2002 RMB'000
Net cash inflow from operating activities	<u>23,863</u>	<u>126,544</u>
Net cash used in investing activities	<u>(174,323)</u>	<u>(103,350)</u>
Net cash inflow from financing activities	<u>22,700</u>	<u>29,936</u>
(Decrease) / Increase in cash and cash equivalents	<u>(127,760)</u>	<u>53,130</u>
Cash and cash equivalents at 1st January	<u>1,019,903</u>	<u>893,796</u>
Cash and cash equivalents at 30th June	<u><u>892,143</u></u>	<u><u>946,926</u></u>
Analysis of balances of cash and cash equivalents: Bank balances and cash	<u><u>892,143</u></u>	<u><u>946,926</u></u>

NOTES TO CONDENSED ACCOUNTS

(Prepared in accordance with HKSSAP 25)

1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with HK SSAP 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has changed its accounting policy following its adoption of SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003.

The change to the Group's accounting policy and the effect of adopting the new policy are set out as below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening net assets at 1st January 2003 have been increased by RMB6,346,000, which represent the unprovided net deferred tax assets at 1st January 2003. Opening net assets at 1st January 2002 have been decreased by RMB7,582,000, which represent the unprovided net deferred tax liabilities at 1st January 2002. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by RMB57,372,000 and RMB45,873,000, respectively.

2 Segment information

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 attributable to markets outside the PRC.

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An analysis of the Group's revenue and results for the period by business segment is as follows:

6 months ended 30th June 2003						
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export RMB'000	Elimination RMB'000	Group RMB'000
Turnover						
External	970,509	2,315,062	190,793	101,068	—	3,577,432
Internal	27,122	109,939	4,140	—	(141,201)	—
Total	<u>997,631</u>	<u>2,425,001</u>	<u>194,933</u>	<u>101,068</u>	<u>(141,201)</u>	<u>3,577,432</u>
Segment results	<u>143,929</u>	<u>45,386</u>	<u>6,175</u>	<u>1,693</u>	<u>(13,113)</u>	184,070
Unallocated costs						(6,665)
Operating profit						177,405
Finance costs						(15,607)
Share of profits less losses of						
Jointly controlled entities	(225)					(225)
Associated companies	161					161
Profit before taxation						161,734
Taxation						(62,227)
Minority interests						(8,405)
Profit attributable to shareholders						<u>91,102</u>

6 months ended 30th June 2002						
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export RMB'000	Elimination RMB'000	Group RMB'000
Turnover						
External	929,307	1,852,312	161,940	57,324	—	3,000,883
Internal	28,188	131,899	—	—	(160,087)	—
Total	<u>957,495</u>	<u>1,984,211</u>	<u>161,940</u>	<u>57,324</u>	<u>(160,087)</u>	<u>3,000,883</u>
Segment results	<u>159,673</u>	<u>40,669</u>	<u>5,020</u>	<u>844</u>	<u>(9,717)</u>	196,489
Unallocated costs						(8,703)
Operating profit						187,786
Finance costs						(13,640)
Share of profits less losses of						
Jointly controlled entities	(339)					(339)
Associated companies	203					203
Profit before taxation						174,010
Taxation						(64,875)
Minority interests						(8,379)
Profit attributable to shareholders						<u>100,756</u>

3 Operating profit

Operating profit is stated after crediting and charging the following:

	6 months ended 30th June	
	2003	2002
	RMB'000	RMB'000
Crediting:		
Reversal of write-down of inventories	30	710
Reversal of impairment of fixed assets, intangible assets or other assets	<u>5,237</u>	<u>—</u>
Charging:		
Depreciation and amortisation of fixed assets	48,172	42,980
Impairment of fixed assets and construction in progress	—	9,382
Loss on disposal of fixed assets	6,913	1,214
Staff costs	<u>284,583</u>	<u>244,273</u>

4 Taxation

The PRC enterprise income tax has been provided at the rate of 33% (2002: 33%) on the estimated assessable profit for the period. 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.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	6 months ended 30th June	
	2003	2002
	RMB'000	RMB'000
Current taxation		
PRC enterprise income tax	60,757	69,199
Deferred taxation relating to the origination and reversal of temporary differences	<u>1,426</u>	<u>(4,379)</u>
	62,183	64,820
Share of taxation attributable to:		
Jointly controlled entities	—	—
Associated companies	<u>44</u>	<u>55</u>
Taxation charge	<u>62,227</u>	<u>64,875</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the PRC enterprise income tax as follows:

	6 months ended 30th June	
	2003	2002
	RMB'000	RMB'000
Profit before taxation	<u>161,734</u>	<u>174,010</u>
Calculated at a taxation rate of 33% (2002: 33%)	53,372	57,423
Effect of different taxation rates in a subsidiary	(1,223)	(1,048)
Expenses not deductible for taxation purposes	11,919	8,500
Tax refund	<u>(1,841)</u>	<u>—</u>
Taxation charge	<u>62,227</u>	<u>64,875</u>

5 Dividends

	6 months ended 30th June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
2002 Final dividend, paid, of RMB 0.06 (2001 final dividend paid, of RMB 0.06) per share (Note)	48,654	48,654

Note

At a meeting held on 21st March 2003, the directors proposed a final dividend of RMB0.06 per share for the year ended 31st December 2002, which was paid in May 2003 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2003.

6 Earnings per share

The calculation of earnings per share for the six months ended 30th June 2003 is based on the net profit of RMB91,102,000 (2002: RMB100,536,000) and the number of 810,900,000 shares (2002: 810,900,000 shares) in issue.

7 Fixed assets and construction in progress

	Fixed assets and construction in progress
	<i>RMB'000</i>
Opening net book amount as at 1st January 2003	1,268,850
Additions	146,469
Disposals	(13,419)
Depreciation and amortisation (Note 3)	(48,172)
Reversal of impairment charge	4,000
Closing net book amount as at 30th June 2003	1,357,728

8 Trade and other receivables

Included in trade and other receivables are trade debtors and their ageing analysis is as follows:

	30th June	31st December
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	847,393	646,977
6 months to 1 year	132,379	39,972
1 year to 2 years	19,354	3,027
	999,126	689,976

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

9 Trade and other payables

Included in trade and other payables are trade payables and their ageing analysis is as follows:

	30th June 2003 RMB'000	31st December 2002 RMB'000
Within 1 year	767,580	617,433
1 year to 2 years	17,391	13,695
2 years to 3 years	7,150	7,592
More than 3 years	22,494	24,385
	<u>814,615</u>	<u>663,105</u>

10 Long-term liabilities

	30th June 2003 RMB'000	31st December 2002 RMB'000
Bank loans		
Secured	59,500	32,000
Unsecured	57,680	57,680
	<u>117,180</u>	<u>89,680</u>

The Group's bank loans were repayable as follows:

Within one year	10,000	—
In the second year	20,000	—
In the third to fifth year	87,180	89,680
After the fifth year	—	—
	<u>117,180</u>	<u>89,680</u>

11 Employee benefits

	30th June 2003 RMB'000	31st December 2002 RMB'000
Medical insurance scheme (Note c)	66,956	67,955
Housing allowance scheme (Note d)	8,964	4,154
	<u>75,920</u>	<u>72,109</u>
Less: Current portion of employee benefits included in other payables and accrued charges	<u>(11,395)</u>	<u>(9,134)</u>
	<u>64,525</u>	<u>62,975</u>

11 Employee benefits (continued)

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in the PRC have participated in a number of defined contribution employees benefit plans for its existing and retired employees organised by the government. The Group has 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 as at 30th June 2003 (31st December 2002: 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 as at 30th June 2003 (31st December 2002: Nil).

(c) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1st December 2001, it is mandatory for the Company and its subsidiaries in Guangzhou City 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 Guangzhou City, depending on the length of the employment period of the employee concerned.

(d) Housing allowance scheme

Pursuant to the resolution passed at the directors' meeting on 1st July 2002, the Group developed and implemented a housing allowance scheme, which took effect on 1st July 2002. The scheme allows the Company and its subsidiaries in the PRC to pay its employees housing allowance 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 allowance payable however is limited to the difference between the actual and budgeted after-tax profit of the Company.

12 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2002: 33%).

The movement on the deferred tax liabilities / (assets) account is as follows:

	30th June 2003 RMB'000	31st December 2002 RMB'000
At the beginning of the period/year	(34,885)	3,752
Deferred taxation (credited)/charged to the profit and loss account	1,426	(38,637)
At the end of the period/year	(33,459)	(34,885)

The movement in deferred tax assets and liabilities during the period is as follows:

Deferred tax assets	Provisions		Impairment of assets		Employee benefits		Others		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1st January	(27,310)	(24,785)	(25,021)	(18,902)	(23,386)	—	(5,041)	(3,454)	(80,758)	(47,141)
Charged / (credited) to profit and loss account	301	(2,525)	—	(6,119)	325	(23,386)	115	(1,587)	741	(33,617)
At 30th June 2002 / 31st December 2002	(27,009)	(27,310)	(25,021)	(25,021)	(23,061)	(23,386)	(4,926)	(5,041)	(80,017)	(80,758)

Deferred tax liabilities	Fixed assets Revaluation		Research and Development Expenses		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1st January	44,478	45,130	1,395	5,763	45,873	50,893
Charged / (credited) to profit and loss account	(326)	(652)	1,011	(4,368)	685	(5,020)
At 30th June 2002 / 31st December 2002	44,152	44,478	2,406	1,395	46,558	45,873

The amounts shown in the balance sheet include the following:

	30th June 2003 RMB'000	31st December 2002 RMB'000
Deferred tax assets to be recovered after more than 12 months	74,276	74,601
Deferred tax liabilities to be settled after more than 12 months	45,906	45,221

13 Capital commitments for fixed assets

	30th June 2003 RMB'000	31st December 2002 RMB'000
Contracted but not provided for	173,421	219,391
Authorised but not contracted for	27,360	68,401
	200,781	287,792

14 Related party transactions

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

	Note	6 months ended 30th June	
		2003 RMB'000	2002 RMB'000
Ultimate holding company			
Licence fee expense	a	3,536	3,140
Service fee expense	b	426	364
Welfare facilities fee expense	c	198	164
Rental expense	d	1,297	1,321
Capital contribution to a subsidiary	e	25,634	—
Jointly controlled entities			
Sales of semi-finished goods	f	551	400
Associated company			
Sales of finished goods	f	1,007	829
Fellow subsidiaries			
Sales of finished goods and raw materials	f	48,318	29,166
Purchases of finished goods and raw materials	f	81,434	66,699
Purchase of a building	f	—	39,240

- (a) Pursuant to the Trademark Licence Agreement entered into by the Company and GZPHL on 1st 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 1st September 1997 and supplemented by a notice dated 31st 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 31st December 2007.
- (c) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1st 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 31st December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31st December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 1st September 1997, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three years at a fixed annual rent and is subject to the adjustment of standard rent as prescribed from time to time by the Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement was extended for one year after its expiration on the same terms.
- (e) During the period, GZPHL had made additional capital contribution in the form of land, machineries and buildings to Guangzhou Hanfang, a subsidiary of the Company.
- (f) 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.

DOCUMENTS AVAILABLE FOR INSPECTION

- 1 The original copy of the 2003 interim report signed by the legal representative;
- 2 The original copy of the accounts signed and chopped by the legal representative, person in charge of accounting function and person in charge of accounting department;
- 3 The original company documents disclosed in the announcements published in the "Hong Kong Economic Times", "The Standard", "Shanghai Securities" during the reporting period;
- 4 The Company's Articles of Association.

Guangzhou Pharmaceutical Company Limited
Cai Zhixiang
Chairman

Guangzhou, RRC 15th August 2003