Consolidated Balance Sheet

As at 31 December 2005
(Prepared in accordance with HK GAAP)

	Note	As at 31 December **2005** *RMB'000*	2004 *RMB'000* *Restated*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,542,068**	1,589,355
Investment properties	7	**8,712**	8,712
Land use rights	8	**134,691**	140,202
Intangible assets	9	**49,506**	57,546
Interests in associates	11	**4,854**	6,066
Available-for-sale financial assets	13	**61,994**	—
Investment securities	14	**—**	64,863
Deferred income tax assets	24	**53,345**	49,155
		1,855,170	1,915,899
Current assets			
Inventories	15	**1,148,569**	1,077,959
Trade and other receivables	16	**1,683,197**	1,518,633
Financial assets at fair value through profit or loss	17	**10,903**	—
Trading securities	18	**—**	18,562
Bank and cash balances	19	**618,581**	882,385
		3,461,250	3,497,539
Total assets		**5,316,420**	5,413,438
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	**1,592,034**	1,592,034
Other reserves	21	**989,014**	880,427
Retained earnings			
— Proposed final dividend	33	**56,763**	20,273
— Others		**85,312**	52,858
		2,723,123	2,545,592
Minority interest		**201,707**	212,287
Total equity		**2,924,830**	2,757,879

Consolidated Balance Sheet

As at 31 December 2005
(Prepared in accordance with HK GAAP)

	Note	As at 31 December **2005** *RMB'000*	2004 *RMB'000* *Restated*
LIABILITIES			
Non-current liabilities			
Borrowings	23	**—**	109,500
Deferred income tax liabilities	24	**42,522**	43,174
Employee benefits	25	**46,203**	52,852
		88,725	205,526
Current liabilities			
Trade and other payables	22	**1,359,720**	1,430,214
Current income tax liabilities		**25,360**	34,680
Borrowings	23	**917,785**	985,139
		2,302,865	2,450,033
Total liabilities		**2,391,590**	2,655,559
Total equity and liabilities		**5,316,420**	5,413,438
Net current assets		**1,158,385**	1,047,506
Total assets less current liabilities		**3,013,555**	2,963,405

Xie Bin
Director

Zhou Yuejin
Director

The notes on pages 137 to 191 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2005
(Prepared in accordance with HK GAAP)

	Note	As at 31 December 2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**24,613**	21,949
Intangible assets	9	**972**	1,215
Investments in subsidiaries	10	**1,413,712**	1,477,475
Investments in associates	11	**2,179**	3,273
Investments in jointly controlled entities	12	**102,035**	—
Available-for-sale financial assets	13	**58,683**	—
Investment securities	14	**—**	64,739
		1,602,194	1,568,651
Current assets			
Other receivables	16	**638,420**	433,873
Financial assets at fair value through profit or loss	17	**10,903**	—
Trading securities	18	**—**	18,562
Bank and cash balances	19	**90,103**	201,801
		739,426	654,236
Total assets		**2,341,620**	2,222,887
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	**1,592,034**	1,592,034
Other reserves	21	**580,113**	551,042
Retained earnings			
- Proposed final dividend		**56,763**	20,273
- Others		**57,943**	31,596
Total equity		**2,286,853**	2,194,945
LIABILITIES			
Current liabilities			
Other payables	22	**54,767**	27,942
Total equity and liabilities		**2,341,620**	2,222,887

Xie Bin
Director

Zhou Yuejin
Director

The notes on pages 137 to 191 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2005
(Prepared in accordance with HK GAAP)

	Note	2005 RMB'000	2004 RMB'000
		Year ended 31 December	
Sales	5	**9,026,340**	7,709,565
Cost of goods sold	26	**(7,472,974)**	(6,313,633)
Gross profit		**1,553,366**	1,395,932
Other revenues - net	28	**91,594**	65,146
Selling and marketing costs	26	**(616,821)**	(557,377)
Administrative expenses	26	**(641,365)**	(666,716)
Other operating expenses		**(16,459)**	(27,555)
Operating profit		**370,315**	209,430
Finance costs	29	**(53,610)**	(47,194)
Share of losses of associates	11	**(1,212)**	(561)
Profit before income tax		**315,493**	161,675
Income tax expense	30	**(107,771)**	(110,295)
Profit for the year		**207,722**	51,380
Attributable to:			
Equity holders of the Company	31	**197,804**	42,829
Minority interest		**9,918**	8,551
		207,722	51,380
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- basic and diluted	32	**0.244**	0.053
Dividend	33	**56,763**	20,273

The notes on pages 137 to 191 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005
(Prepared in accordance with HK GAAP)

	Note	Attributable to equity holders of the Company Share capital *RMB'000*	 Other reserves *RMB'000*	 Retained earnings *RMB'000*	Minority interest *RMB'000*	Total *RMB'000*
Balance at 1 January 2004, as previously reported as equity		1,592,034	814,035	145,348	—	2,551,417
Balance at 1 January 2004, as previously separately reported as minority interest		—	—	—	182,627	182,627
Balance at 1 January 2004, as restated		1,592,034	814,035	145,348	182,627	2,734,044
Profit for the year		—	—	42,829	8,551	51,380
Dividend relating to 2003		—	—	(48,654)	(9,987)	(58,641)
Transfers		—	66,392	(66,392)	—	—
Minority interest - business combinations		—	—	—	4,768	4,768
Minority interest - capital contribution		—	—	—	26,328	26,328
Balance at 31 December 2004		1,592,034	880,427	73,131	212,287	2,757,879
Balance at 1 January 2005 as per above		1,592,034	880,427	73,131	212,287	2,757,879
Profit for the year			—	197,804	9,918	207,722
Dividend relating to 2004	33	—	—	(20,273)	(9,783)	(30,056)
Transfers		—	98,684	(98,684)	—	—
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution) (Note 12)		—	9,903	(9,903)	(10,715)	(10,715)
Balance at 31 December 2005		1,592,034	989,014	142,075	201,707	2,924,830

The notes on pages 137 to 191 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005
(Prepared in accordance with HK GAAP)

	Note	Year ended 31 December 2005 RMB'000	2004 RMB'000
Cash flows from operating activities			
Cash generated from operations	34	**238,886**	297,072
Interest paid		**(51,211)**	(47,997)
Income tax paid		**(121,933)**	(113,714)
Net cash generated from operating activities		**65,742**	135,361
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		—	(2,150)
Proceeds from disposal of a joint venture		—	6,000
Purchase of interests in associates		—	(1,795)
Disposal of interests in associates		—	181
Purchase of property, plant and equipment		**(31,693)**	(71,609)
Payments for construction in progress		**(93,597)**	(232,602)
Proceeds from sale of property, plant and equipment	34	**1,230**	1,011
Purchase of intangible assets		**(500)**	—
Government grants received		**28,721**	13,822
Purchase of trading securities		—	(10,000)
Purchase of available-for-sale financial assets		**(200)**	—
Proceeds from sale of trading securities		—	41,413
Purchase of investment securities		—	(881)
Proceeds from sale of investment securities		—	277
Deposit received for partial disposal of a subsidiary		—	8,880
Loan repayments received from related parties		—	2,931
Interest received		**10,522**	9,326
Dividend received		**3,405**	8,403
Net cash used in investing activities		**(82,112)**	(226,793)
Cash flows from financing activities			
Capital contribution from minority shareholders		**62,627**	3,265
Proceeds from borrowings		**1,341,918**	1,256,482
Repayments of borrowings		**(1,621,923)**	(1,044,178)
Dividends paid to Company's shareholders	33	**(20,273)**	(48,654)
Dividends paid to minority interest		**(9,783)**	(9,987)
Net cash (used in)/generated from financing activities		**(247,434)**	156,928
Net (decrease)/increase in bank and cash balances		**(263,804)**	65,496
Bank and cash balances at beginning of the year		**882,385**	816,889
Bank and cash balances at end of the year	19	**618,581**	882,385

The notes on pages 137 to 191 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

These financial statements have been approved for issue by the Board of Directors on 31 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The adoption of new / revised HKFRS

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Properties
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 28 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights were accounted for at cost less accumulated amortisation and accumulated impairment.

The Group adopted the proportionate consolidation under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for by the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other revenues. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight-line basis over a period ranging from 5 to 15 years; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 2.8):

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statements of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

— HKAS 40 - since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment properties.

— HKFRS 3 - prospectively after the adoption date.

(i) The adoption of revised HKAS 17 resulted in:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	**134,691**	140,202
Increase in land use rights	**134,691**	140,202

(ii) The adoption of HKAS 31 resulted in:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Decrease in interests in jointly controlled entities	**172,496**	—
Increase in other non-current assets	**61,069**	—
Increase in current assets	**140,566**	—
Increase in non-current liabilities	**4,547**	—
Increase in current liabilities	**24,592**	—

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(ii) The adoption of HKAS 31 resulted in: *(continued)*

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Decrease in share of profits of jointly controlled entities	**28,833**	—
Increase in income	**245,431**	—
Increase in expenses	**(216,598)**	—

(iii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at 31 December 2005
	RMB'000
Increase in intangible assets	108
Increase in retained earnings	108

	Year ended 31 December 2005
	RMB'000
Decrease in administrative expenses	108
Increase in basic and diluted earnings per share	0.0001

(iv) The adoption of HKAS 39 resulted in :

	As at 31 December 2005
	RMB'000
Increase in available-for-sale financial assets	61,996
Decrease in investment securities	61,996
Increase in financial assets at fair value through profit or loss	10,903
Decrease in trading securities	10,903

There was no impact on basic and diluted earnings per share from the adoption of HKASs 17, 31, 39 and 40 and HKAS-Int 21.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKASs 17, 31, 38, 39 and 40, HKAS-Int 21 and HKFRS 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods are as follows:

- HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)
- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)
- HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 1 December 2005)

These new standards, amendments and interpretations to existing standards are either not relevant to the Group's operations or, if relevant, have not been early adopted by the Group, and management is currently assessing the impact on the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see note 2.8).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2.8).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(c) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Building	15 - 50 years
Plant, machinery and equipment	4 - 18 years
Motor vehicles and office equipment	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of the usage of individual properties and current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement as part of "other revenue-net".

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Land use rights

Land use rights are stated at cost less accumulated amortisation and depreciation and accumulated impairment losses.

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

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate / jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in "investments in associates". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Patents and trademarks

Patents and trademarks are shown at historical cost. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives (less than 20 years).

(c) Staff quarters reform costs

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

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and trading securities.

(a) Investment securities

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

The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such securities was reduced to its fair value. The impairment loss was recognised as an expense in the income statement. This impairment loss was written back to income statement when the circumstances and events that led to the write-downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(b) Trading securities

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

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (note 2.12).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising, from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other revenues-net", in the period in which they arise.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.12.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Cash

Cash refers to cash in hand and deposits held at call with banks.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental cost directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Deferred income tax

Deferred income tax 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 financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Employee benefits

(a) Pension obligations

The Group participates in the defined contribution employee retirement schemes regarding pension benefits required under existing PRC legislation. The Group's obligations include contributions to a defined contribution retirement plan administered by a government agency determined at a certain percentage of the salaries of the employees. The regular contributions, which are charged to the income statement on an accrual basis, constitute net periodic costs for the year in which they are due and as such are included in staff costs. Once the contributions have been paid, the Group has no further payment obligations.

(b) Housing benefit

The Group's contributions to the defined contribution housing fund scheme administered by a government agency determined at a certain percentage of the salaries of the employees are expensed when services are rendered by the employees.

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

(c) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme administered by a government agency for existing employees are expensed when services are rendered by the employees.

Contributions to the defined contribution medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

(d) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods - wholesale

Sales of goods are recognised when an entity in the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of goods - retail

Sales of goods are recognised when an entity in the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in "selling and marketing costs".

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(e) Dividend income

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

2.19 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department (the "Group Finance") under policies approved by the Board of Directors. The Group Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US dollars") and Hong Kong dollars ("HK dollars"). The Group's businesses are principally conducted in Renminbi ("RMB"), except for import and export of western pharmaceutical products that are mainly conducted in US dollars and HK dollars. Dividends to shareholders holding H Shares are declared in RMB and paid in HK dollars. As at 31 December 2005, all of the Group's assets and liabilities were denominated in RMB except that bank and cash balances of RMB12,749,000 (2004:RMB35,999,000), trade and other receivables of RMB15,651,000 (2004:RMB15,183,000) and trade and other payables of RMB41,605,000 (2004:RMB27,572,000) were denominated in US dollars and HK dollars. Foreign exchange risk arises from such future commercial transactions, recognised assets and liabilities and declared dividends could affect the Group's results of operations.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities.

(d) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from its borrowings, details of which have been disclosed in note 23. All of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The nominal value less impairment provision of financial assets and liabilities are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant, and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant, and equipment. This estimate is based on the historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

(c) Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Management will reassess the provision at the balance sheet date.

5 SEGMENT INFORMATION

Primary reporting format - business segments

At 31 December 2005, the Group is organised into the following business segments:

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

Turnover consists of sales of goods from the above business segments, which are RMB9,026,340,000 and RMB7,709,565,000 for the years ended 31 December 2005 and 2004 respectively.

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

5 SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments *(continued)*

The segment results are as follows:

	Year ended 31 December 2004					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total gross segment sales	1,936,887	5,601,112	278,839	193,661	(300,934)	7,709,565
Inter-segment sales	(16,656)	(261,155)	(9)	(23,114)	300,934	—
Sales	1,920,231	5,339,957	278,830	170,547	—	7,709,565
Segment results	205,990	49,599	(17,006)	3,790	(10,012)	232,361
Unallocated costs						(22,931)
Operating profit						209,430
Finance costs (Note 29)						(47,194)
Share of losses of associates (Note 11)	(561)					(561)
Profit before income tax						161,675
Income tax expense (Note 30)						(110,295)
Profit for the year						51,380

	Year ended 31 December 2005					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total gross segment sales	2,187,677	7,088,324	318,669	265,572	(833,902)	9,026,340
Inter-segment sales	(46,002)	(743,036)	—	(44,864)	833,902	—
Sales	2,141,675	6,345,288	318,669	220,708	—	9,026,340
Segment results	245,716	142,245	3,179	5,920	(27,477)	369,583
Unallocated profit						732
Operating profit						370,315
Finance costs (Note 29)						(53,610)
Share of losses of associates (Note 11)	(1,212)					(1,212)
Profit before income tax						315,493
Income tax expense (Note 30)						(107,771)
Profit for the year						207,722

5 SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments *(continued)*

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

	Year ended 31 December 2004					
	Manufacturing	**Wholesale**	**Retail**	**Import and export**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation (Note 6)	82,534	26,031	2,362	509	3,392	114,828
Amortisation (Note 8, Note 9)	11,466	3,206	—	30	—	14,702
Impairment of inventories	—	25,148	—	—	—	25,148
Impairment of trade and other receivables	1,007	7,539	—	144	—	8,690
Reversal of trade and other receivables impairment	(3,595)	—	—	—	—	(3,595)
Impairment of property, plant, and equipment (Note 6)	1,555	—	—	—	—	1,555

	Year ended 31 December 2005					
	Manufacturing	**Wholesale**	**Retail**	**Import and export**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation (Note 6)	99,272	19,152	2,113	173	4,679	125,389
Amortisation (Note 8, Note 9)	15,725	1,442	—	—	—	17,167
Impairment of goodwill (Note 9)	507	1,497	—	—	—	2,004
Impairment of inventories	580	929	—	—	—	1,509
Reversal of inventory impairment (Note 15)	—	(4,303)	—	—	—	(4,303)
Impairment of trade and other receivables	2,465	4,456	—	611	—	7,532
Reversal of trade and other receivable impairment	(1,692)	(100)	—	—	—	(1,792)
Reversal of property, plant, and equipment impairment (Note 6)	(341)	—	—	—	(7,110)	(7,451)

Unallocated costs represent corporate expenses.

5 SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments *(continued)*

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	2,561,454	2,344,415	162,165	102,743	575,079	(338,484)	5,407,372
Associates	6,066	—	—	—	—	—	6,066
Total assets	2,567,520	2,344,415	162,165	102,743	575,079	(338,484)	5,413,438
Liabilities	766,297	2,018,186	69,252	69,194	71,114	(338,484)	2,655,559
Capital expenditure (Notes 6, 8 and 9)	307,788	16,200	4,085	366	91	—	328,530

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	2,499,796	2,436,726	194,843	122,651	684,748	(627,198)	5,311,566
Associates	4,854	—	—	—	—	—	4,854
Total assets	2,504,650	2,436,726	194,843	122,651	684,748	(627,198)	5,316,420
Liabilities	643,665	2,086,885	90,904	100,043	97,291	(627,198)	2,391,590
Capital expenditure (Notes 6, 8 and 9)	112,071	19,116	5,178	60	843	—	137,268

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investment properties and other investments.

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

Capital expenditure comprises additions to land use rights (note 8), property, plant and equipment (note 6) and intangible assets (note 9), including additions resulting from acquisitions through business combinations.

Geographical segment

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

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2004					
Cost	925,059	669,457	81,790	294,803	1,971,109
Accumulated depreciation	(213,616)	(317,917)	(45,665)	—	(577,198)
Net book amount	711,443	351,540	36,125	294,803	1,393,911
Year ended 31 December 2004					
Opening net book amount	711,443	351,540	36,125	294,803	1,393,911
Additions	34,104	30,368	6,616	236,348	307,436
Transfers	185,721	243,197	621	(429,539)	—
Contribution by minority shareholders	4,141	1,500	253	6,538	12,432
Acquisition of a subsidiary	—	315	138	369	822
Disposals (note 34)	(2,883)	(5,446)	(534)	—	(8,863)
Depreciation (note 26)	(49,103)	(50,896)	(14,829)	—	(114,828)
Impairment expense (note 5)	(41)	(1,514)	—	—	(1,555)
Closing net book amount	883,382	569,064	28,390	108,519	1,589,355
At 31 December 2004					
Cost	1,145,041	927,987	83,671	108,519	2,265,218
Accumulated depreciation	(261,659)	(358,923)	(55,281)	—	(675,863)
Net book amount	883,382	569,064	28,390	108,519	1,589,355
Year ended 31 December 2005					
Opening net book amount	883,382	569,064	28,390	108,519	1,589,355
Additions	10,370	25,666	3,088	90,619	129,743
Transfers	17,749	30,465	1,204	(49,418)	—
Disposals (note 34)	(748)	(4,020)	(534)	—	(5,302)
Disposal of a subsidiary	—	(3,333)	—	—	(3,333)
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution) (note 12)	(35,638)	(12,128)	(1,755)	(936)	(50,457)
Depreciation (note 26)	(50,709)	(67,557)	(7,123)	—	(125,389)
Reversal of impairment charge (note 5)	7,110	245	96	—	7,451
Closing net book amount	831,516	538,402	23,366	148,784	1,542,068
At 31 December 2005					
Cost	1,132,693	935,531	80,104	148,784	2,297,112
Accumulated depreciation	(301,177)	(397,129)	(56,738)	—	(755,044)
Net book amount	831,516	538,402	23,366	148,784	1,542,068

6 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation of RMB80,470,000 (2004: RMB74,588,000) has been expensed in cost of good sold, RMB80,000 (2004: RMB71,000) in selling and marketing costs and RMB44,839,000 (2004: RMB40,169,000) in administrative expenses.

Lease rentals amounting to RMB33,377,000 (2004: RMB36,172,000) relating to the lease of properties, are included in the income statement.

All of the Group's buildings are located in the PRC, except for a property with net book amount of RMB15,679,000 (2004: RMB9,556,000) which is located in Hong Kong.

Certain property, plant and equipment of the Group with net book amount of RMB93,511,000 (2004: RMB130,344,000) have been pledged for bank borrowings of the Group (note 23).

Company

	Buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2004				
Cost	25,055	15,907	1,530	42,492
Accumulated depreciation	(13,476)	(6,977)	(299)	(20,752)
Net book amount	11,579	8,930	1,231	21,740
Year ended 31 December 2004				
Opening net book amount	11,579	8,930	1,231	21,740
Additions	—	3,743	—	3,743
Disposals	—	(30)	—	(30)
Depreciation	(466)	(2,887)	(151)	(3,504)
Closing net book amount	11,113	9,756	1,080	21,949
At 31 December 2004				
Cost	25,055	19,508	1,530	46,093
Accumulated depreciation	(13,942)	(9,752)	(450)	(24,144)
Net book amount	11,113	9,756	1,080	21,949
Year ended 31 December 2005				
Opening net book amount	11,113	9,756	1,080	21,949
Additions	—	263	—	263
Disposals	—	(30)	—	(30)
Depreciation	(1,614)	(2,914)	(151)	(4,679)
Reversal of impairment charge	7,110	—	—	7,110
Closing net book amount	16,609	7,075	929	24,613
At 31 December 2005				
Cost	25,055	19,740	1,530	46,325
Accumulated depreciation	(8,446)	(12,665)	(601)	(21,712)
Net book amount	16,609	7,075	929	24,613

6 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation of RMB4,679,000 (2004: RMB3,504,000) has been expensed in administrative expenses.

Lease rentals amounting to RMB1,235,000 (2004: RMB1,183,000) relating to the lease of properties are included in the income statement.

7 INVESTMENT PROPERTIES - GROUP

The Group's investment properties are located in the PRC and have been revalued at their industrial use value by Mr. K.K. Ip of Greater China Appraisal Limited, an independent firm of valuers, at 31 December 2005. Mr. K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

8 LAND USE RIGHTS - GROUP

The Group's interests in land use rights represent prepaid operating lease payments on leases of between 20 years to 50 years in the PRC.

The land use rights are analysed as follows:

	2005	2004
	RMB'000	*RMB'000*
Opening	**140,202**	135,223
Additions	**—**	9,548
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution) (Note 12)	**(1,529)**	—
Amortisation (Note 26)	**(3,982)**	(3,603)
Impairment expense	**—**	(966)
	134,691	140,202

9 INTANGIBLE ASSETS

Group

	Goodwill	Patent and trademarks	Staff quarters reform costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004				
Cost	—	2,980	104,467	107,447
Accumulated amortisation	—	(68)	(45,896)	(45,964)
Net book amount	—	2,912	58,571	61,483
Year ended 31 December 2004				
Opening net book amount	—	2,912	58,571	61,483
Additions	2,154	5,008	—	7,162
Amortisation (a) (Note 26)	(150)	(503)	(10,446)	(11,099)
Closing net book amount	2,004	7,417	48,125	57,546
At 31 December 2004				
Cost	2,154	7,988	104,467	114,609
Accumulated amortisation	(150)	(571)	(56,342)	(57,063)
Net book amount	2,004	7,417	48,125	57,546

9 INTANGIBLE ASSETS *(continued)*

Group *(continued)*

	Goodwill	Patent and trademarks	Staff quarters reform costs	Software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2005					
Opening net book amount	2,004	7,417	48,125	—	57,546
Additions	—	500	—	7,025	7,525
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution) (note 12)	—	—	(376)	—	(376)
Impairment expense (b) (note 26)	(2,004)	—	—	—	(2,004)
Amortisation (a) (note 26)	—	(932)	(10,382)	(1,871)	(13,185)
Closing net book amount	—	6,985	37,367	5,154	49,506
At 31 December 2005					
Cost	2,154	8,488	104,092	7,025	121,759
Accumulated amortisation	(150)	(1,503)	(66,725)	(1,871)	(70,249)
Impairment	(2,004)	—	—	—	(2,004)
Net book amount	—	6,985	37,367	5,154	49,506

9 INTANGIBLE ASSETS *(continued)*

Company

	2005 RMB'000	2004 RMB'000
Staff quarters reform costs		
At 1 January		
Cost	**2,524**	2,524
Accumulated amortisation	**(1,309)**	(1,066)
Net book amount	**1,215**	1,458
Year ended 31 December		
Opening net book amount	**1,215**	1,458
Amortisation	**(243)**	(243)
Closing net book amount	**972**	1,215
At 31 December		
Cost	**2,524**	2,524
Accumulated amortisation	**(1,552)**	(1,309)
Net book amount	**972**	1,215

Notes:

(a) *Amortisation of RMB13,185,000 (2004: RMB11,099,000) is included in administrative expenses in the income statement.*

(b) *The carrying amount of the segment has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in administrative expenses in the income statement.*

10 INVESTMENTS IN SUBSIDIARIES - COMPANY

	2005 RMB'000	2004 RMB'000
Investments in subsidiaries - unlisted equity securities, at cost	**1,612,895**	1,574,623
Less: provision for impairment losses	**(97,148)**	(97,148)
Less: Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution) (note 12)	**(102,035)**	—
	1,413,712	1,477,475

Particulars of the principal subsidiaries are set out in note 38.

11 INTERESTS / INVESTMENTS IN ASSOCIATES

Group

	2005 RMB'000	2004 RMB'000
At 1 January	**6,066**	5,292
Additions	**—**	1,335
Share of losses of associates	**(1,212)**	(561)
At 31 December	**4,854**	6,066

The Group's interests in its associates, all of which are unlisted, were as follows:

Name	Particulars of issued capital held	Country of incorporation	Principal activities	Interest held 2005 %	Interest held 2004 %
Ming Tai Enterprises (Thailand) Ltd.	Ordinary shares of Baht1 each	Thailand	Dormant	40.00	40.00
Guangzhou Jinshen Medical Co., Ltd.	Registered capital: RMB1.5 million	PRC	Production of health medicine	38.25	38.25
Guangzhou Jihua Bio-chemical . Co., Ltd.	Registered capital: RMB10 million	PRC	Development, manufacture and sales of medical apparatus and instruments	24.00	24.00
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	Registered capital: RMB1.9 million	PRC	Sales of Chinese medicine	29.72	32.37

Company

	2005 RMB'000	2004 RMB'000
Investments in associates:		
— Unlisted equity securities, at cost	**2,179**	3,273

12 INTERESTS/INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

The Group's interests in its jointly controlled entities, all of which are unlisted, were as follows:

Name	Particulars of issued capital held	Country of incorporation	Principal activities	Interest held 2005 %	Interest held 2004 %
WLJ	Registered capital: RMB204,756,878	PRC	Production of CPM	48.05	Note
Guangzhou Zhong Fu Medical Co., Ltd.	Registered capital: RMB800,000	PRC	Production of CPM	50.00	50.00
Guangzhou Lianjie Computer Technology Co.,Ltd.	Registered capital: RMB500,000	PRC	ERP Consulting service	50.00	50.00
PT. Purusa Bhakti	Ordinary shares of US$1 each	Indonesia	Dormant	50.00	50.00

Note: *During the year, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("WLJ"), a subsidiary of the Group, has issued additional 98,378,439 shares to a third party investor for total subscription price of RMB168,880,000. Consequently, the Group's interest in WLJ has been diluted from 92.48% to 48.0465% and WLJ became a jointly controlled entity of the Group since the effective completion date of subscription. Gain arising from this deemed disposal has been included in the consolidated income statement.*

12 INTERESTS / INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Group *(continued)*

The following amounts represent the Group's share of assets, liabilities, and results of these jointly controlled entities that have been included in the consolidated balance sheet and consolidated income statement respectively:

	2005 *RMB'000*	2004 *RMB'000*
Assets:		
Non-current assets	**61,069**	—
Current assets	**140,566**	—
	201,635	
Liabilities:		
Non-current liabilities	**4,547**	—
Current liabilities	**24,592**	—
	29,139	—
Net assets	**172,496**	—
Results:		
Income	**245,431**	—
Expenses	**(216,598)**	—
Profit after income tax	**28,833**	—
Proportionate interest in commitments	**38,722**	—

There are no contingent liabilities relating to the Group's interest in these jointly controlled entities, and no contingent liabilities of these entities themselves.

	Company	
	2005 ***RMB'000***	2004 *RMB'000*
Investments in jointly controlled entities:		
— Unlisted equity securities, at cost	**102,035**	—

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	Company
	RMB'000	*RMB'000*
At 1 January 2005	64,863	64,739
Additions	363	200
Disposals	(1,139)	—
Impairment losses	(2,093)	(6,256)
At 31 December 2005	61,994	58,683

Available-for-sale financial assets represented unlisted equity securities. The amount of provision for impairment losses as at 31 December 2005 was RMB2,093,000 (2004: Nil).

14 INVESTMENT SECURITIES

	Group	Company
	RMB'000	*RMB'000*
At 31 December 2004		
Unlisted equity securities	64,863	64,739

There was no provision for impairment losses as at 31 December 2004.

15 INVENTORIES - GROUP

	2005	2004
	RMB'000	*RMB'000*
Raw materials	**116,937**	118,008
Work in progress	**110,260**	79,291
Finished goods	**91,550**	95,586
Merchandise	**828,982**	783,119
Production supplies	**840**	1,955
	1,148,569	1,077,959

The cost of inventories recognised as expense including those in cost of goods sold, amounted to RMB7,470,180,000 (2004: RMB6,338,781,000).

The Group reversed RMB4,303,000 (2004:Nil) of a previous inventory write-down during the year ended 31 December 2005 based on the sales proceeds of such inventories. The amount reversed has been included in administrative expenses in the income statement.

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables (a)	**1,004,658**	1,022,116	**—**	—
Less: provision for impairment of receivables	**(44,881)**	(54,457)	**—**	—
Trade receivables - net	**959,777**	967,659	**—**	—
Bills receivable	**331,754**	185,275	**—**	—
Other receivables and prepayments	**386,606**	359,387	**710**	444
Due from				
Subsidiaries (b)	**—**	—	**522,665**	338,472
Ultimate holding company (c)	**5,060**	6,312	**5,555**	6,322
Dividend receivable from subsidiaries	**—**	—	**109,490**	88,635
	1,683,197	1,518,633	**638,420**	433,873

Note:

(a) *Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of trade receivables is as follows:*

	2005	2004
	RMB'000	*RMB'000*
Within 6 months	***922,280***	*849,715*
6 months to 1 year	***24,949***	*107,091*
Over 1 year	***57,429***	*65,310*
	1,004,658	*1,022,116*

At 31 December 2005, trade receivables amounted to RMB260,821,000 (2004: RMB100,661,000) were discounted by enterprise in the Group to banks in the PRC with full right of recourse. The corresponding collateralised borrowings were included in short-term bank borrowings.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, which are widely dispersed within the PRC.

The Group has recognised a loss of RMB5,740,000 (2004: RMB5,095,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in administrative expenses in the income statement.

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

(c) *The amounts due are unsecured, interest free and repayable on demand.*

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - GROUP AND COMPANY

	RMB'000
At 31 December 2005	
Held for trading	
— Unlisted debt securities	10,903

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement (note 34).

Changes in fair values of financial assets at fair value through profit or loss are recorded in other revenues in the income statement (note 28).

18 TRADING SECURITIES - GROUP AND COMPANY

	RMB'000
At 31 December 2004	
Unlisted debt securities	18,562

19 BANK AND CASH BALANCES

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**454,808**	641,801	**63,264**	133,352
Short-term deposits	**163,773**	240,584	**26,839**	68,449
	618,581	882,385	**90,103**	201,801

Cash at bank earned interests at floating rates based on daily bank deposit rates. Short-term deposits during the year ended 31 December 2005 are made for varying period of between seven days and three months, depending on the immediate cash requirements of the Group, and earned interests at the respective short-term deposit rates.

20 SHARE CAPITAL

	2005	2004
	RMB'000	*RMB'000*
At 1 January and 31 December		
Share capital registered, issued and fully paid		
513,000,000 State shares of RMB1 each	**513,000**	513,000
219,900,000 H shares of RMB1 each	**219,900**	219,900
78,000,000 A shares of RMB1 each	**78,000**	78,000
	810,900	810,900
Share premium on issue of shares net of issuing expenses	**781,134**	781,134
	1,592,034	1,592,034

21 OTHER RESERVES

	Group				
	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	(Note a)	*(Note b)*	*(Note b)*	*(Note b)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2004, as previously reported	397,589	194,306	134,459	87,681	814,035
Transfer from retained earnings, net	2,243	23,716	19,114	21,319	66,392
Balance at 31 December 2004	399,832	218,022	153,573	109,000	880,427
Balance at 1 January 2005, as per above	399,832	218,022	153,573	109,000	880,427
Transfer from retained earnings, net	1,966	38,563	34,119	24,036	98,684
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution) (note 12)	19,819	(3,455)	(3,006)	(3,455)	9,903
Balance at 31 December 2005	421,617	253,130	184,686	129,581	989,014

21 OTHER RESERVES *(continued)*

	Company			
	Capital reserve	Statutory surplus reserve (note b)	Statutory public welfare fund (note b)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2004, as previously reported	397,824	86,627	59,177	543,628
Transfer from retained earnings	100	4,876	2,438	7,414
Balance at 31 December 2004	397,924	91,503	61,615	551,042
Balance at 1 January 2005, as per above	397,924	91,503	61,615	551,042
Transfer from retained earnings	100	19,314	9,657	29,071
Balance at 31 December 2005	398,024	110,817	71,272	580,113

Notes:

(a) Capital reserve

Transfers from retained earnings included:

— *an amount of RMB19,819,000 (2004: Nil) represented income arising from dilution of equity interest in a subsidiary.*

— *an amount of RMB452,000 (2004: RMB361,000) represented deferred income on government grants during the year net of minority interest.*

— *an amount of RMB2,397,000 (2004: RMB5,113,000) represented waiver of debts during the year net of minority interest.*

— *an amount of RMB440,000 (2004: Nil) represented donations received during the year net of minority interest.*

Transfers to retained earnings included:

— *an amount of RMB1,323,000 (2004: RMB1,323,000) represented depreciation on revalued fixed assets net of deferred tax credits.*

— *an amount of RMB1,908,000 in 2004 represented loss arising from capital injection in a subsidiary.*

21 OTHER RESERVES *(continued)*

Notes: (continued)

(b) Surplus reserve

The Company, its subsidiaries, jointly controlled entities and associates established in the PRC ("PRC Companies") are required to maintain certain surplus reserves by transferring from their profit after income tax in accordance with the relevant laws and regulations and, if applicable, Articles of Association, before any dividend is declared and paid.

Statutory surplus reserve

The PRC Companies are required to transfer 10% of their profit after income tax calculated in accordance with the PRC accounting standards and systems, to the statutory surplus reserve until the balance reaches 50% of their respective registered capital, where further transfers will be at their directors' recommendation. The statutory surplus reserve can only be used to make up prior year losses or to increase share capital.

Statutory public welfare fund

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

Discretionary surplus reserve

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

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables (a)	**955,704**	985,686	**—**	—
Due to				
Subsidiaries (b)	**—**	—	**42,444**	1,407
Ultimate holding company (b)	**25,468**	19,865	**—**	—
Other payables and accrued charges	**378,548**	424,663	**12,323**	26,535
	1,359,720	1,430,214	**54,767**	27,942

22 TRADE AND OTHER PAYABLES *(continued)*

Notes:

(a) *The ageing analysis of the trade payables at 31 December 2005 is as follows:*

	Group	
	2005	2004
	RMB'000	RMB'000
Within 1 year	**908,119**	952,171
1 year to 2 years	**25,264**	13,724
Over 2 years	**22,321**	19,791
	955,704	985,686

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

23 BORROWINGS - GROUP

	2005	2004
	RMB'000	*RMB'000*
Non-current		
Bank borrowings		
— secured	**—**	11,820
— unsecured	**—**	97,680
	—	109,500
Current		
Short-term bank borrowings - secured	**43,961**	255,959
Current portion of long-term bank borrowings - secured	**—**	47,680
Current portion of long-term bank borrowings - unsecured	**50,000**	—
Short-term bank borrowings - unsecured	**823,824**	681,500
	917,785	985,139
Total borrowings	**917,785**	1,094,639

Except for bank borrowings of RMB50 million (with interest expense of RMB2,175,000 incurred during the year ended 31 December 2005), all bank borrowings are borrowed from state-controlled banks at prevailing market rates. Bank borrowings are secured by property, plant and equipment of the Group with carrying value of RMB93,511,000 at 31 December 2005 (2004: RMB130,344,000) (note 6).

23 BORROWINGS - GROUP *(continued)*

The maturity of borrowings is as follows:

	2005 RMB'000	2004 RMB'000
Within 1 year	**917,785**	985,139
Between 1 and 2 years	**—**	109,500
	917,785	1,094,639

The effective interest rates at the balance sheet date were as follows:

	2005	2004
Long-term bank borrowings	**—**	5.239%
Short-term bank borrowings	**5.236%**	4.858%

The carrying amounts of short-term bank borrowings and long-term bank borrowings approximate their fair value.

The carrying amounts of all the Group's borrowings are denominated in RMB.

The Group has the following undrawn borrowing facilities:

	2005 RMB'000	2004 RMB'000
Floating rate		
— expiring within one year	**25,671**	38,284

24 DEFERRED INCOME TAX - GROUP

	2005 RMB'000	2004 RMB'000
Deferred income tax assets:		
— Deferred income tax assets to be recovered after more than 12 months	**53,345**	49,155
Deferred income tax liabilities:		
— Deferred income tax liabilities to be settled after more than 12 months	**42,522**	43,174

24 DEFERRED INCOME TAX - GROUP *(continued)*

The gross movement on the deferred income tax account is as follows:

	2005 **RMB'000**	2004 RMB'000
Beginning of the year	**(5,981)**	(12,707)
Recognised in the income statement (note 30)	**(4,842)**	6,726
End of the year	**(10,823)**	(5,981)

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

Deferred income tax assets

	Provisions for receivables		Impairment of other assets		Employee benefits		Others		Total	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
At 1 January	**(15,821)**	(19,171)	**(7,221)**	(7,349)	**(20,210)**	(21,764)	**(5,903)**	(8,249)	**(49,155)**	(56,533)
Charged / (credited) to income statement	**1,481**	3,350	**1,324**	128	**2,537**	1,554	**(9,532)**	2,346	**(4,190)**	7,378
At 31 December	**(14,340)**	(15,821)	**(5,897)**	(7,221)	**(17,673)**	(20,210)	**(15,435)**	(5,903)	**(53,345)**	(49,155)

Deferred income tax liabilities

	Property, plant, and equipment revaluation	
	2005 **RMB'000**	2004 RMB'000
At 1 January	**43,174**	43,826
Credited to income statement	**(652)**	(652)
At 31 December	**42,522**	43,174

25 EMPLOYEE BENEFITS - GROUP

	2005 RMB'000	2004 RMB'000
Medical insurance scheme	**53,586**	59,019
Housing allowance scheme	**19,276**	10,352
	72,862	69,371
Less: Current portion of employee benefits included in other payables and accrued charges	**(26,659)**	(16,519)
	46,203	52,852

26 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2005 RMB'000	2004 RMB'000
Depreciation and amortisation (notes 6, 8 and 9)	**142,556**	129,530
Impairment expense of property, plant, and equipment	**—**	2,521
Impairment expense of investment securities	**—**	3,788
Impairment expense of available-for-sale financial assets	**2,093**	—
Impairment expense of goodwill (note 9)	**2,004**	—
Impairment expense of trading securities	**—**	1,191
Impairment expense of financial assets at fair value through profit or loss	**7,659**	—
Impairment expense of receivables, net of reversal	**5,740**	5,095
(Net reversal of impairment)/impairment of inventories	**(2,794)**	25,148
Outgoings in respect of investment properties	**3,713**	3,749
Outgoings in respect of other properties	**317**	2,629
Loss on disposal of property, plant, and equipment	**4,072**	7,852
Research and development costs	**37,984**	30,984
Transportation	**63,034**	59,476
Advertising costs	**196,136**	198,068
Changes in inventories of finished goods and work in progress	**26,932**	31,457
Raw materials and consumables used	**721,070**	609,555
Auditors' remuneration	**3,300**	3,324
Operating leases for buildings	**33,377**	36,172
Employee benefit expense (note 27)	**631,690**	612,611

27 EMPLOYEE BENEFIT EXPENSE

(a) Employee benefit expense are analysed as follows:

	2005 *RMB'000*	2004 *RMB'000*
Pension benefit	**64,584**	61,455
Housing fund	**41,855**	30,538
Medical insurance	**34,054**	25,143
Housing allowances	**19,005**	12,132
Salaries, wages and other staff benefits	**472,192**	483,343
	631,690	612,611

(b) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2005 is set out below:

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	Total *RMB'000*
Name of director					
Yang Rongming(a)	—	—	—	—	—
Zhou Yuejin	—	147	160	18	325
Xie Bin (b)	—	179	—	18	197
Feng Zansheng (c)	—	140	1,045	18	1,203
Wu Zhang	80	—	—	—	80
Wong Hin Wing	80	—	—	—	80
Zhang Heyong	80	—	—	—	80
He Shuhua (d)	—	46	40	6	92
Name of supervisor					
Chen Canying (a)	—	—	—	—	—
Ou Yangqiang	—	141	—	18	159
Zhong Yugan	—	30	—	—	30

27 EMPLOYEE BENEFIT EXPENSE *(continued)*

(b) Directors' and supervisors' emoluments *(continued)*

The remuneration of every director and supervisor for the year ended 31 December 2004 is set out below:

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of director					
Yang Rongming (a)	—	—	—	—	—
Zhou Yuejin	—	157	481	16	654
Feng Zansheng (c)	—	140	979	16	1,135
He Shuhua	—	133	294	16	443
Wu Zhang	74	—	—	—	74
Wong Hin Wing	67	—	—	—	67
Zhang Heyong	67	—	—	—	67
Cai Zhixiang	—	—	—	—	—
Li Yimin	—	—	—	—	—
Chu Youlin	25	—	—	—	25
Zhang Bohua	25	—	—	—	25
Liu Jinxiang	16	—	—	—	16
Huang Buren	5	—	—	—	5
Name of supervisor					
Luo Jidong	—	5	—	—	5
Tan Sima	—	5	—	—	5
Ou Yangqiang	—	96	107	13	216
Chen Canying (a)	—	—	—	—	—
Zhong Yugan	—	—	—	—	—

27 EMPLOYEE BENEFIT EXPENSE *(continued)*

(b) Directors' and supervisors' emoluments *(continued)*

Notes:

(a): The director or supervisor received emoluments from the parent company, part of which is in respect of his services to the Company and its subsidiaries. No apportionment has been made as the director considers that it is impracticable to apportion this amount between their services to the Group and their services to the Company's parent company.

(b): Appointed on 30 June 2005.

(c): The director received emoluments from the subsidiaries in respect of his services to the Company and its subsidiaries.

(d): Resigned on 27 April 2005

No directors and supervisors waived or agreed to waive any emoluments in respect of the year ended 31December 2005 and 31 December 2004.

(e) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: three) individuals during the year are as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries and allowances	**283**	499
Bonuses	**905**	1,330
Retirement scheme contributions	**36**	48

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil - RMB1,000,000	**2**	3

28 OTHER REVENUES - NET

	2005 RMB'000	2004 RMB'000
Gain on dilution of interest in a subsidiary (Note 12)	**19,819**	—
Interest income	**10,522**	9,326
Gross rental income from investment properties	**22,796**	21,883
Gross rental income from other properties	**16,758**	13,147
Royalty income	**2,579**	2,032
Realised income on disposal of trading securities	**—**	1,666
Dividend income from available-for-sale financial assets	**3,405**	—
Others	**15,715**	17,092
	91,594	65,146

29 FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest expense on borrowings	**51,338**	48,513
Less: interest capitalised in construction in progress	**—**	(3,746)
	51,338	44,767
Other incidental borrowing costs	**2,272**	2,427
	53,610	47,194

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress for the year ended 31 December 2004 was 4.32% to 5.49% per annum.

30 INCOME TAX EXPENSE

The PRC enterprise income tax has been provided at the principal rate of 33% (2004: 33%) on the estimated assessable profit for the year, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises. Given the subsidiary was established in a coastal economic development zone, the applicable enterprise income tax rate is 27%. The jointly controlled entity is entitled to exemption from the PRC enterprise income tax for two years commencing from the first profit-making year and a 50% reduction in the enterprise income tax rates in the following three years. 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 operate.

	2005	2004
	RMB'000	*RMB'000*
Current income tax		
- PRC enterprise income tax	**112,613**	103,569
Deferred income tax (note 24)	**(4,842)**	6,726
	107,771	110,295

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

	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**315,493**	161,675
Calculated at a taxation rate of 33% (2004: 33%)	**104,112**	53,353
Effect of different taxation rates applicable to a subsidiary and a jointly controlled entity	**(9,736)**	(2,120)
Income not subject to taxation	**(6,540)**	(2,081)
Expenses not deductible for taxation purposes	**19,935**	63,374
Tax refund	**—**	(2,231)
Taxation charge	**107,771**	110,295

31 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB112,180,000 (2004: RMB24,473,000).

32 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity holders of the Company of RMB197,804,,000 (2004: RMB42,829,000) and the 810,900,000 (2004: 810,900,000) shares in issue.

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the years ended 31 December 2005 and 2004.

33 DIVIDEND

	2005	2004
	RMB'000	*RMB'000*
Final, proposed, of RMB0.070 (2004: RMB0.025) per share	**56,763**	20,273

At a meeting held on 31 March 2006, the directors declared a final dividend of RMB0.070 per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

34 CASH GENERATED FROM OPERATIONS

	2005	2004
	RMB'000	*RMB'000*
Profit for the year	**207,722**	51,380
Adjustments for:		
— Tax (Note 30)	**107,771**	110,295
— Depreciation (Note 6)	**125,389**	114,828
— Amortisation (Note 8, Note 9)	**17,167**	14,702
— Impairment expense (Note 26)	**14,702**	37,743
— Loss on sale of property, plant and equipment (see below)	**4,072**	7,852
— Losses (including loss on disposal) on trading securities	**—**	385
— Interest income (Note 28)	**(10,522)**	(9,326)
— (Profit) / loss arising from change of interest in a subsidiary	**(19,819)**	1,908
— Dividend income (Note 28)	**(3,405)**	—
— Interest expense	**51,338**	44,767
— Share of loss from associates (Note 11)	**1,212**	561
— Realised gains on disposal of trading securities	**—**	(1,666)
	495,627	373,429
Changes in working capital:		
— Inventories	**(85,687)**	(26,032)
— Trade and other receivables	**(155,838)**	(116,591)
— Trade and other payables	**(15,216)**	66,266
Cash generated from operations	**238,886**	297,072

34 CASH GENERATED FROM OPERATIONS *(continued)*

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
	RMB'000	*RMB'000*
Net book amount (Note 6)	**5,302**	8,863
Loss on sale of property, plant and equipment	**(4,072)**	(7,852)
Proceeds from sale of property, plant and equipment	**1,230**	1,011

35 COMMITMENTS - GROUP

(a) Capital commitments

	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment		
Contracted but not provided for	**23,412**	24,836
Authorised but not contracted for	**38,036**	50,689
	61,448	75,525

(b) Commitments under operating leases

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	2005	2004
	RMB'000	*RMB'000*
Not later than 1 year	**20,315**	21,134
Later than 1 year and not later than 5 years	**44,705**	40,264
Later than 5 years	**19,908**	17,450
	84,928	78,848

36 FUTURE OPERATING LEASE ARRANGEMENTS

At 31 December 2005, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of buildings as follows:

	2005	2004
	RMB'000	*RMB'000*
Not later than 1 year	**23,389**	22,492
Later than 1 year and not later than 5 years	**47,047**	70,437
	70,436	92,929

37 RELATED-PARTY TRANSACTIONS

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

Save as disclosed elsewhere in the consolidated financial statements, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		2005	2004
	Note	***RMB'000***	*RMB'000*
Ultimate holding company			
License fee expense	a	**12,230**	7,618
Service fee expense	b	**860**	910
Welfare facilities fee expense	c	**310**	480
Rental expense	d	**3,450**	3,871
Capital contribution to a subsidiary of the Company		**—**	48,369
		16,850	61,248

37 RELATED-PARTY TRANSACTIONS *(continued)*

	Note	2005 RMB'000	2004 RMB'000
A jointly controlled entity			
Sales of raw materials	e	**20,700**	—
Purchase of finished goods	e	**26,310**	—
		47,010	—
Associates			
Purchase of finished goods	e	**—**	108
Fellow subsidiaries			
Sales of finished goods and raw materials	e	**201,295**	84,145
Purchase of finished goods and raw materials	e	**456,860**	104,449
		658,155	188,594
Other state-controlled entities	f		
Sales of finished goods and raw materials	e	**2,170,470**	2,275,337
Purchase of finished goods and raw materials	e	**768,546**	630,332
Purchase of machinery and equipment	e	**7,342**	16,115
Service fee expense	g	**76,792**	89,016
		3,023,150	3,010,800
Key management compensation			
Salaries and other benefits		**1,269**	945
Bonus		**1,327**	2,158
Retirement scheme contribution		**107**	62
		2,703	3,165

37 RELATED-PARTY TRANSACTIONS *(continued)*

	Note	2005 RMB'000	2004 RMB'000
Year-end balances arising from sales / purchases of goods/services			
Due from ultimate holding company		**5,060**	6,312
Due to ultimate holding company		**25,468**	19,865
Due from fellow subsidiaries		**51,614**	44,488
Less: Provision for impairment of receivables		**(1,682)**	(1,214)
		49,932	43,274
Due to fellow subsidiaries		**62,870**	24,183
Due from other state-controlled entities		**368,524**	394,479
Less: Provision for impairment of receivables		**(10,580)**	(16,437)
		357,944	378,042
Due to other state-controlled entities		**54,918**	143,869

Notes:

(a) *Pursuant to the Trademark License Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("GZPHL"), its ultimate holding company, on 1 September 1997, 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 license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries. Effective February 2005, trademark licence fee of WLJ has been changed to 2.1% of its net sales.*

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

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

37 RELATED-PARTY TRANSACTIONS *(continued)*

Notes: (continued)

(d) *Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 6 February 2004, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three and a half years at a fixed annual rent and is subject to the adjustment of standard rent as prescribed from time to time by Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement will expire on 31 August 2007.*

(e) *The sales and purchase transactions with jointly controlled entities, associates, fellow subsidiaries and other state-owned entities were at terms similar to those transactions with other third parties.*

(f) *GZPHL, the parent of the Company, is a state-controlled entity directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. Stated-controlled enterprise and their subsidiaries, in addition to GZPHL group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither GZPHL nor the PRC government publishes financial statements available for public use.*

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

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

(g) *Service fee charged by other state-controlled enterprises are mainly in relation to advertising and promotion activities, commercial insurance and transportation. These transactions were entered into at open market terms.*

38 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2005:

Name	% of equity interest held Directly	Indirectly	Registered capital RMB	Principal activities
Guangzhou First Chinese Medicine Company Limited[2]	90.37	6.65	166,000,000	Production of CPM
Guangzhou Chen Li Ji Chinese Medicine Factory[1]	100.00	—	94,000,000	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory[1]	100.00	—	82,416,741	Investment Holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.[3]	88.40	—	86,232,345	Production of CPM
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.[3]	87.77	—	65,436,232	Production of CPM
Guangzhou Xing Qun Pharmaceutical Co., Ltd.[3]	88.99	—	77,168,904	Production of CPM
Guangzhou Pharmaceutical Corporation Limited[2]	90.09	6.90	222,000,000	Trading of western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation[1]	100.00	—	72,026,905	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Corporation Jianmin Medicine Chain Pharmacies[1]	—	96.99	10,694,000	Wholesaling and retailing of medicine, pharmaceutical and related products
Guangzhou Guo Xin Te Pharmaceutical Miscellaneous Medicine Wholesale Company[1]	—	96.99	3,000,000	Wholesaling of miscellaneous medicine
Guangzhou Jiamin Medicine Pharmaceutical Sales and Marketing Company[1]	—	96.99	500,000	Wholesaling of western pharmaceutical products
Guangzhou Pharmaceutical Import & Export Corporation[1]	100.00	—	2,568,000	Import and export of medicine
Guangzhou Qi Xing Pharmaceutical Co., Ltd.[4]	—	75.00	100,000,000	Production of CPM

38 PRINCIPAL SUBSIDIARIES *(continued)*

The following is a list of the principal subsidiaries at 31 December 2005: *(continued)*

Name	% of equity interest held Directly	Indirectly	Registered capital RMB	Principal activities
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory[1]	—	100.00	3,113,000	Processing of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Medical Powder and Herb Wholesale Company[1]	—	100.00	534,000	Wholesaling of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Sales and Marketing Company[1]	—	100.00	2,083,000	Wholesaling and retailing of CPM
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies[1]	—	100.00	3,934,000	Retailing of Chinese raw medicine and CPM
Guangzhou Medical Equipment and Chemical Testing Equipment Co., Ltd.[2]	—	89.32	11,880,000	Wholesaling and retailing of medical apparatus and chemical testing equipment
Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd. [2]	70.04	2.91	127,764,300	Research and development of CPM
Guangzhou Baidi Biological Pharmaceutical Co., Ltd.[2]	95.69	—	83,600,000	Research and development of patented biological products
Guangzhou Huanye Medicine Co., Ltd.[2]	59.70	—	6,000,000	Production of western pharmaceutical products
Guangzhou Guo Ying New and Special Medicine Wholesale Company[1]	—	96.99	9,070,000	Wholesaling of medicine and health care products
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd.[2]	51.00	—	18,407,863	Wholesaling of medicine and health care products
Guangxi Ying Kang Pharmaceutical Co., Ltd.[2]	51.00	—	31,884,529	Production of CPM

Except for the change in equity interest in Guangzhou Baidi Biological Pharmaceutical Co., Ltd from 94.86% to 95.69% during the year, there has not been any change in equity interests in other principal subsidiaries since 31 December 2004.

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

Kind of legal entities:

1 *State-owned enterprise*

2 *Limited company*

3 *Joint stock company*

4 *Sino-foreign joint venture*