

## Notes to the accounts prepared in conformity with PRC Accounting Standards

1. The accounting policies adopted in this financial report are in conformity with the Enterprise Accounting Standards and Enterprise Accounting Regulations of the PRC, and the accounting methods adopted are substantially the same as those adopted in respect of the corresponding period in the previous year.
2. The Company was not involved in any merger or demerger transactions during the period to which this report relates.
3. **Accounts receivable**

The aging analysis for accounts receivable is as follows:

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Within 1 year	213,327	189,961
Over 1 year but less than 2 years	17,227	16,690
Over 2 year but less than 3 years	13,485	13,695
<b>Total</b>	<b>244,039</b>	<b>220,346</b>
Less: Provision for bad debts	5,642	5,352
<b>Net value of accounts receivable</b>	<b>238,397</b>	<b>214,994</b>

There are no accounts receivable due from shareholders who hold 5% or more of the Company's shares.

4. **Other receivables**

The aging analysis for other receivables is as follows:

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Within 1 year	51,210	67,263
Over 1 year but less than 2 years	17,140	16,221
Over 2 year but less than 3 years	198	219
Over 3 years	—	1,000
<b>Total</b>	<b>68,548</b>	<b>84,703</b>
Less: Provision for bad debts	43	43
<b>Net value of other receivables</b>	<b>68,505</b>	<b>84,660</b>



## 5. Inventories

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Raw materials	30,782	23,183
Work in progress	54,557	57,099
Finished goods	83,661	76,542
Goods in stock	2,202	1,746
Low value articles	6,157	6,380
Special materials for government	1,212	1,501
Total	178,571	166,451
Less: Provision for loss on realisation of inventories	330	330
Net inventories	178,241	166,121

## 6. Short-term investments

The Company has not made any short-term investment during the period to which this report relates.

## 7. Long-term investments

## 7.1 Long-term investments include:

Item	Opening Balance	Increased	Decreased	Closing Balance
Long term equity investment	38,500	—	—	38,500
Long term debts investments	164	—	—	164
Total	38,664	—	—	38,664

## 7.2 Long-term equity investments includes:

Name of Company	Investment Amount	% of equity interest held
Tianton Securities Company Limited	30,000	1.46%
Pacific Insurance Company Limited	7,000	0.25%
Shandong Huanzhong Pharmaceutical	1,500	5.50%
Total	38,500	



## 8. Construction in progress

	Notes	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Construction project	8.1	18,465	10,776
Prepayments		<u>68,995</u>	<u>50,959</u>
Total		<u><u>87,460</u></u>	<u><u>61,735</u></u>

### 8.1 The details of construction projects:

	Opening balance	Additions	Include: Capitalized interest	Disposal	Include: transferred to fixed assets	Closing balance	Project progress
GMP innovation project in Workshop I	584	497	—	—	—	1,081	2001.12
The pilot testing plant in Research Institute	381	550	—	—	—	931	2001.12
Metals and fitting transfer station	829	—	—	—	—	829	2001.12
Analgin project	4,521	1,502	—	—	—	6,023	2001.12
Comprehensive buildings	1,309	412	—	—	—	1,721	2002.6
Other projects	3,152	4,727	—	—	—	7,880	
Total	<u>10,776</u>	<u>7,688</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,465</u>	

## 9. Deferred expenses

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Deferred expenses	<u>1,304</u>	<u>899</u>

The deferred expenses were mainly attributable to the new issue of A Shares.

## 10. Financial expenses

	Six months ended 30 June 2001 RMB'000	30 June 2000 RMB'000
Interest expenses	8,783	10,996
Interest incomes	(6,266)	(6,272)
Others	<u>(102)</u>	<u>47</u>
Total	<u><u>2,415</u></u>	<u><u>4,771</u></u>



## 11. Long-term deferred expenses

No long-term deferred expenses occurred during the period to which this report relates.

## 12. Profits from other operations

	Six months ended	
	30 June 2001	30 June 2000
	RMB'000	RMB'000
Sales of Materials	962	(151)
Sales of water, electricity, steam	—	181
Technology supplied and rental income	1,812	484
Total	<u>2,774</u>	<u>514</u>

## 13. Investment income

	Six months ended	
	30 June 2001	30 June 2000
	RMB'000	RMB'000
Other investment income	<u>330</u>	<u>—</u>

## 14. Non-operating income

	Six months ended	
	30 June 2001	30 June 2000
	RMB'000	RMB'000
Proceeds from disposal of fixed assets	564	866
Penalty income	16	13
Others	7	2
Total	<u>587</u>	<u>881</u>

## 15. Non-operating expenses

	Six months ended	
	30 June 2001	30 June 2000
	RMB'000	RMB'000
Disposal of fixed asset	114	—
Overdue fine, penalty expense	2	439
Other	2,327	1,257
Total	<u>2,443</u>	<u>1,696</u>



## 16. Related parties transactions

16.1 The general descriptions of the related parties as at 30 June 2001 are as follows:

Names of the Related parties	Nature	Representative Of legal Person	Registered Address	Registered Capital ('000)	Business Scope	Relationship With the Company
Shandong Xinhua Pharmaceutical Group Co., Ltd. (SXPGC)	Company Limited	He Duanshi	Zhangdian Zibo	RMB301,500	Pharmaceutical & Chemical production Trade and others	Holding Company
Shandong Xinhua Industry & Trade Co., Ltd.	Joint Stock Enterprise	Fu Hengqian	Zhangdian Zibo	RMB23,200	Production and sales of the bulk Pharmaceuticals and Others	Related party and a subsidiary of SXPGC
Shandong Xinhua Zibo Packing Co., Ltd.	Company Limited	Wang Shoujian	Zhangdian Zibo	RMB15,400	Design, production and sale of packing products	Related party and a subsidiary of SXPGC
Shandong Xinhua Xincat Pharmaceutical Co., Ltd.	Joint Venture	Tao Jingshi	Zhangdian Zibo	USD2,875	Production and sales of bulk Pharmaceuticals	Related party and a subsidiary of SXPGC
Shandong Xinhua Chemferm Pharmaceutical Co., Ltd.	Joint Venture	Fu Hengqian	Zhangdian Zibo	USD3,820	Production and sales of Cephalixin and Cephradine	Related party and a subsidiary of SXPGC
Shandong Xinhua Zibo Comprehensive Service Co., Ltd.	Company Limited	Mi Chuanhuang	Zhangdian Zibo	RMB19,301	Comprehensive Services	Related party and a subsidiary of SXPGC
Shandong Xinhua Zichuan Chemical Co., Ltd.	Company Limited	Chen Dazheng	Zichuan Zibo	RMB3,174	Production and sale Of Chemicals	Related party and a subsidiary of SXPGC
Shandong Huantai Xinhua Fine Chemical Co., Ltd.	Company Limited	Yu Ruixuan	Huantai Zibo	RMB4,000	Chemical production	Related party and a subsidiary of SXPGC
SXPGC Zibo Acid Manufacturing Co., Ltd.	Company Limited	Zheng Dezeng	Boshan Zibo	RMB7,735	Chemical production	Related party and a subsidiary of SXPGC
SXPGC Dongfeng Chemical Industrial Co., Ltd.	Company Limited	Wang Xuyi	Zhangdian Zibo	RMB1,500	Chemical production	Related party and a subsidiary of SXPGC

## 16.2 Major transactions with related parties are described as follows:

	Amount receivable/ (payable) RMB'000	Closing balance receivable/ (payable) RMB'000	Notes
1. Sales of products and provision of energy, labour and technology services by the Company to the related parties include:			
Shandong Xinhua Industry and Trade Company Limited	6,230	21,261	Sales of products
Zichuan Chemical Co., Ltd.	99	—	Technology service
Huantai Fine Chemical Co., Ltd.	—	—	Technology service
Zibo Xincat Pharmaceutical Co., Ltd.	1,055	3,307	Provision of energy and service
Xinhua Chemferm Pharmaceutical Co., Ltd.	1,544	—	Sales of products and service
Zibo Packing Company Limited	1,010	—	Provision of labour
2. Raw materials supplied by related parties to the Company includes:			
Shandong Xinhua Industry and Trade Company Limited	(9,266)	—	Raw materials
Zichuan Chemical Co., Ltd.	(3,468)	(2,997)	Raw materials
Huantai Fine Chemical Co., Ltd.	(500)	362	Raw materials
Xinhua Chemferm Pharmaceutical Co., Ltd.	(7,806)	(1,568)	Raw materials
Zibo Packing Company Limited	(11,008)	(7,289)	Raw materials
Xinhua Comprehensive Service Co., Ltd.	(6,078)	999	Labour and services
Zibo Acid Manufacturing Co., Ltd.	(4,244)	(1,093)	Raw materials
Zibo Dongfeng Chemical Industrial Co., Ltd.	(697)	(774)	Raw materials
3. Other transactions with the related parties include:			
Shandong Xinhua Pharmaceutical Group Company Limited	2,306	(5,072)	Loans and advances

The transactions with the related parties are all settled at market prices.