

# NOTES TO THE FINANCIAL STATEMENTS

*(unless otherwise indicated, all figures are stated in RMB'-000)*

*(PREPARED IN ACCORDANCE WITH*

*PRC ACCOUNTING STANDARDS)*

*From January 1, 2001 to December 31, 2001*

## 1. GENERAL BACKGROUND

Shandong Xinhua Pharmaceutical Company Limited (the "Company"), a listing company, was established in 1993 as a result of the reorganization of Shandong Xinhua Pharmaceutical Factory. In December 1996, the Company listed its H Shares of the People's Republic of China (the "PRC") on Hong Kong Stock Exchange. In July 1997, the Company listed its A Shares of the PRC on Shenzhen Stock Exchange. In November 1998, the Company became a foreign investment joint stock limited company following the approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC. In September 2001, the Company increased 30 million ordinary A shares including offer of 3 million State-owned shares.

As at 31 December 2001, the registered capital of the Company was RMB 457.31 million and the capital structure of the Company for the year ended 31 December 2001 is as follows:

	<b>Number of shares outstanding</b>	<b>Amount</b>	<b>Percentage</b>
State shares	214,440	214,440	46.89%
Legal-persons shares	16,720	16,720	3.66%
General public H shares	150,000	150,000	32.80%
General public A shares	76,153	76,153	16.65%
Total	457,313	457,313	100%

The principle business of the Company is to develop, produce and sell bulk pharmaceutical, preparations and other chemicals products.

According to the Notice No. Lu Ke Gao Zi (2001) No. 647 issued by The Shandong Science and Technology Bureau, the Company has been recognized as a high-tech company.

In December 2001, the registered address of the Company has been changed from No. 14 Dong Yi Road ZhangDianQu Zibo City of Shandong Province to Shandong Zibo High-tech Industry Development Zone.

## **2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

2.1. The financial statements have been prepared in conformity with the Accounting Standards for Enterprises and the Accounting Regulations of Enterprises issued by the Ministry of Finance. The Company uses RMB as its recording currency.

2.2. The consolidated financial statements, comprising the consolidated accounts of the Company and its subsidiary - ZiBo Xinhua Pharmacy Co., Ltd., 88% of whose shares was held by the Company, has been prepared in accordance with Provisional Regulations of Consolidating Financial Statement and relevant supplementary regulations issued by the Ministry of Finance. All material transactions and dealings between the Company and its subsidiary are offset in the consolidated financial statements.

## **3. PRINCIPAL ACCOUNTING POLICIES**

### **3.1. ACCOUNTING PERIOD**

The accounting period of the Company is from 1 January to 31 December of the calendar year.

### **3.2. ACCOUNTING PRINCIPLE AND BASIS OF VALUATION**

The financial statements have been prepared on an accrual basis and the various assets are valued at historical cost unless otherwise indicated.

### **3.3. RECORDING CURRENCY**

The Company uses RMB as its recording currency.

### **3.4. TRANSLATION OF FOREIGN CURRENCIES**

Foreign currency transactions of the Company are translated into RMB at the exchange rate quoted by the People's Bank of China on the first day of the month in which the transactions occurred. Foreign currency monetary assets and liabilities are translated into RMB at the exchange rate prevailing at the balance sheet date. Exchange differences resulted are included in the operating results.

### **3.5. BASIS OF DETERMINATION OF CASH EQUIVALENTS**

Cash equivalents are short-term (usually referring to those due within three months from the purchasing date), highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of value changes.

### **3.6. PROVISION FOR BAD DEBTS**

The receivables became unrecoverable due to the bankruptcy or death of the debtors; and, the receivables clearly proven by other related evidence to be unrecoverable were confirmed to be bad debts. Bad debts were calculated by the allowance method offset by bad debt provisions.

The calculation of bad debts: The bad debts were provided for by the company after detailed valuation of unreceivables. The ratios of bad debts provisions are as follows:

#### **Aging**

Overdue within one year	5%
Overdue for 1-2 years	10%
Overdue for 2-3 years	20%
Overdue for more than 3 years	100%

The provision for other receivables of the Company is made in accordance with the policy for the accounts receivables except the major transactions with the connected parties.

### **3.7. INVENTORIES**

Inventories, comprising mainly raw materials, work-in-progress, finished goods low value consumables and packaging materials.

Costs of inventories acquisition: The actual cost of raw materials includes purchase cost, transportation, loading and unloading and insurance. In case of work-in-progress and finished goods, costs include all actual expenses incurred in the manufacturing and production process.

Costs of inventories sale: The use and sale of raw materials and the sale of semi-finished goods and finished goods were calculated on a weighted average basis.

Inventory taking system: Continuous inventory system

The costs of low-value consumables and packaging materials were amortised on an one-off basis upon use.

A provision for impairment of inventory value was made at the end of the year for the parts of the costs made unrecoverable because the inventory items have been damaged, the whole or part of them have outdated or the sale prices are lower than the costs. The provision for impairment of inventory value is determined on an individual basis whenever the cost of an inventory item exceeds its net realizable value.

### **3.8. LONG-TERM INVESTMENT**

Long-term investment includes long-term share investments or long-term debenture investments.

Long-term equity investment represents investment in other enterprises and securities such as bonds and treasury bonds due over one year. Long-term investments are recorded by using cost method as all these investments constitute less than 20% of the capitals of the invested enterprises. The incomes earned from investment in other enterprises and interest incomes from the securities are accounted for on an accrual basis.

The equity investment difference should be amortized over the investment period, the excess of the investment cost over the investor's share of owners' equity of invested enterprise should generally be amortized over a period of not more than 10 years. The shortfall of investment cost over the investor's share of owners' equity of the invested enterprise should generally be amortized over a period of not less than 10 years.

The cost of long-term security investment acquired by cash is the total price paid on acquisition, including incidental expenses such as taxes and handling charges. However, unpaid interest on bonds which has been accrued and are therefore included in the price paid, should be accounted for separately as receivable items.

Impairment of Long-term investments: the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the invested enterprise, and there is no hope of recovery in the foreseeable future, the difference between recoverable amount and the long-term investment book value would be recorded as impairment of Long-term debt investments.

### **3.9. FIXED ASSETS AND CONSTRUCTION IN PROGRESS**

#### **3.9.1. Fixed assets**

Fixed assets include houses and buildings, machinery and transportation equipment. Fixed assets refer to houses, buildings and other major production and operations equipment with a life expectancy of over one year; and, minor production and operations equipment with a unit cost of over Rmb2,000 and life expectancy of over two years.

The fixed assets owned before the reorganization are stated at appraised values as determined by an independent asset appraisal at the date of reorganization. The fixed assets purchased or constructed by the Company after the reorganization are stated at cost. Depreciation of fixed assets is calculated on the straight-line basis over their expected useful lives, and classified by items. The useful lives are:

	<b>Expected Useful lives</b>
Plants and building	15 Years
Machinery and equipment	10 Years
Electronic apparatus	10 Years
Office equipment and motor vehicles	10 Years

For those fixed assets that are already devalued (as a result of excessive functions, leave unoperated for a long time, replacement value drop significantly, yield of the fixed assets lower than normal capital yield etc), the margin between the discountable value and the book net value would be the provision for devalued fixed assets. Full amount will be withdrawn under any of the following situations:

- 1) Fixed assets that had been left unused for a long time, and will not be used or transferred in the foreseeable future;
- 2) Fixed assets will not be used because of the progress in technique;
- 3) Fixed assets that produce a large mount of rejected products;
- 4) Damaged and thus became useless in value and transferring;

#### **3.9.2. Construction in progress**

The construction in progress is stated at cost. Cost comprises all direct and indirect costs of

acquisition or construction of buildings, plant and machinery as well as the capitalized interests for the loans borrowed and exchange differences arising during the construction.

The company conducts a through inspection for the all the constructions in progress at each year end. Provision for devalue of the construction in progress will be withdrawn when one of or some of the following situations occur;

The Company conducts a comprehensive review of the work-in-progress at the end of every year. In case of existence of any one of or a combination of the following situation, the Company will provide for the impairment of the work-in-progress.

- (1) Suspended for a long time and will not be restarted for construction in the foreseeable 3 years;
- (2) The construction had been dropped behind in terms of function and technic, and there is great uncertainness in bringing economic profit to the company;
- (3) Other situations proving that the construction in progress had been devalued.

### **3.10. VALUATION AND AMORTIZATION OF INTANGIBLE ASSETS**

Land use rights are stated at appraised values as determined by an independent asset appraisal performed upon the reorganization of the Company and amortized on a straight line basis over the land use rights period of 50 years in accordance with the document of "Zi Guo Zi Qi Zi (1993) No. 36" issued by the Zibo State Asset Administration Bureau.

### **3.11. REVENUE RECOGNITION**

Revenues from sales of goods is recognized when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods; the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the relevant amount of revenue and costs can be measured reliably; it is probably that the economic benefits associated with the transaction will flow to the enterprise.

### **3.12. PRINCIPAL TAXATION**

#### **3.12.1. Income tax**

Tax payable method is used in the company. The profits tax rate applicable to the Company

is 33%.

The Company is subject to 15% preferential income tax rate according to the "Approval for Income Tax of Listing Company Lu Zheng Zi (1996) No. 127" issued by the Shandong Provincial Government. This policy expires at the end of 2001.

Since the company removed to ShanDong Zibo High-tech Industry Development Zone, according to relevant tax policies by the state council, the income tax for the company is 15% starting from 2002.

### 3.12.2. Value added tax

The Company is subject to value added tax. The rate for domestic sales is 17% and the rate for export sales is 0%.

Input VAT from purchase of raw materials can be netted off against output VAT from sales. Input VAT from purchase of raw materials used for export sales is refundable.

VAT payable is the net difference between output VAT and input VAT.

### 3.12.3. City Planning Tax and Education Additional Expenses

City planning tax and education additional expenses will be levied at 7% and 3% respectively as payable turnover tax.

### 3.13. Employees' welfare and social insurance reserve

In accordance with the National and Zibo Municipal Regulations on labour administration, the Company should provide a certain percentage of the total salaries of its employees as welfare and social insurance reserve. The unpaid balance is recorded in the accounts like accrued payroll. The rates of provision are as follows:

Unemployment insurance fund	2%
Pension fund	23%
Welfare	14%
Housing fund	5%
Labour union fund	2%
Industrial injury insurance	1.5%
Education fund	1.5%

### **3.14. PROFIT APPROPRIATION**

Profits after tax are appropriated in the following orders in accordance with the Articles of the Company and the relevant PRC regulations:

- (1) Make up accumulated losses of prior years
- (2) Make a 10% appropriation of the profit after tax for the statutory surplus reserve
- (3) Make 5% to 10% appropriation of the profit after tax for the statutory welfare reserve
- (4) Appropriation a discretionary surplus reserve at an amount approved by the shareholders in the shareholders meeting
- (5) Distribute dividends to the shareholders

### **4. MINORITY SHAREHOLDERS' EQUITY**

The minority shareholders' equity are the total equity of the subsidiary subtracting the shares held by the parent company. And the minority shareholders' loss and gain would be the loss and gain of the subsidiary deducting the investment earning of the parent company.

### **5. CASH**

	<b>2001.12.31</b>	<b>2000.12.31</b>
Cash on hand	26	48
Cash in bank*	617,004	279,178
Total	617,030	279,226

\* Including :

- (1) a deposit of USD 1,001,131.23
- (2) a fixed deposit of USD 27,967,076.11
- (3) a deposit of HKD19,797.60.

Above foreign currency deposits are stated in RMB at the rates of exchange quoted by the



People's Bank of China on 31 December 2000. The rate of USD was 8.2786 and that of HKD was 1.0611. The end of the period's plus 120.98% of the beginning of the period's, mainly because of the unused Stock A fund in the bank.

## 6. NOTES RECEIVABLE

	2001.12.31	2000.12.31
Trade notes receivable	8,000	0
Bankers' notes receivable	19,998	9,495
Total	27,998	9,495

Notes receivable which are bankers' notes receivable with no collaterals and not overdue. The maturity date is after March 2002.

## 7. ACCOUNTING RECEIVABLE

The aging analysis for accounting receivable is as follows:

	2001.12.31	Proportion %	Provision for Bad debts	2000.12.31	Proportion %	Provision for Bad debts
Within 1 year	217,288	89.4%	1,065	189,961	86%	944
1 year to 2 years	15,687	6.45%	1,569	16,690	8%	1,669
2 years to 3 years	9,197	3.78%	1,839	13,695	6%	2,739
Over 3 Years	892	0.37%	892	0	0	0
Total	243,064	100%	5,365	220,346	100%	5,352

The balance of the top five account receivables is 57,040K, accounting for 23.46% of the balance of 31 December 2001.

The receivables overdue for over 3 years written off by the Company were RMB10,120K.

There was no account receivables due from shareholders who hold 5% or more of the Company's shares.

## 8 OTHER RECEIVABLE

The aging analysis for other receivable is as follows:

	2001.12.31	Proportion %	Provision for Bad debts	2000.12.31	Proportion %	Provision for Bad debts
Within 1 year	103,980	95.8%	45	67,263	79.4%	43
1 year to 2 years	301	0.29%	30	16,221	19.2%	0
2 years to 3 years	3,989	3.91%	342	219	0.26%	0
Over 3 years	0	0	0	1,000	1.14%	0
Total	108,270	100%	417	84,703	100%	43

Other receivables in great amount include: export drawback 40,899K, taking up 40.07%; XinHua Industry Trade Company sales of rejected products 24,071K, occupying 23.58%.

The interest receivable for the fixed deposit with Industrial & Commercial Bank of China, Zibo Branch, receivables from Group Company and related parties, and receivable unrefunded tax, etc. are not made provision, as they are collectable when due.

The balance of the top five account receivables is 87,230 K, accounting for 85.64% of the balance of December 31, 2001.

The balance of one of the stockholders, Xinhua CO. LTD, which hold 46.89% shares of the company is 5,951K.

## 9. DEPOSITS TO SUPPLIERS

	2001.12.31	Ratio %	2000.12.31	Ratio %
Within 1 year	2,907	91.3%	6,405	95.5%
1 year to 2 years	4	0.13%	34	0.5%
2 years to 3 years	14	0.44%	71	1.05%
Over 3 years	260	8.13%	191	2.95%
Total	3,185	100%	6,701	100%

Uncollected deposit that had been outstanding for more than one year is mainly the

accessory material fund.

There was no deposits to suppliers due from shareholders who hold 5% or more of the Company's shares.

## 10. INVENTORIES

	2001.12.31	Reserve against declining in price	2000.12.31	Reserve against declining in price
Raw materials	31,028		23,183	
Work in progress	69,378		57,099	
Finished goods	85,875	367	76,542	330
Goods in stock	2,284		1,746	
Low value articles	7,684		6,380	
Special materials for Government	1,708		1,501	
Total	197,957	367	166,451	330

The inventories at the year end increased by 18.9% as compared with the start of the year. It was mainly because the Company increased its purchase and production in response to the growth in market demands.

Impairment of inventory value was provided for on the basis of the difference between the carrying value of the finished products and the market value as at 31 December 2001.

## 11. LONG-TERM INVESTMENTS

### 11.1. LONG-TERM INVESTMENT INCLUDE:

	2000.12.31				2001.12.31	
	Opening Balance	lossing	Increased	Decreased	Closing Balance	lossing
Stock investment	38,500	0	17,121	0	55,621	0
Securities Investment	164	0	0	0	164	0
Total	38,664	0	17,121	0	55,785	0

## 11.2. LONG-TERM STOCK INVESTMENT INCLUDE:

Name of Company	The period of investment	Investment Amount	% of ownership held
Tiantong Security Co., Ltd.	Long-term	30,000	1.46%
Pacific Insurance Company	Long-term	7,000	0.25%
Shandong HuanZhong Pharmaceutical Company	Long-term	1,500	5.50%
JinRui SiFang Pharmaceutical S&T Investment Co. Ltd.	50 years	3,200	6.4%
Communication Bank, Zibo branch	Long-term	13,577	
Dezhou Xinhua TaiKang Pharmaceutical Co.ltd	10 years	344	60%
Total		55,621	

In 2001, Zibo Xinhua Pharmacy Company Limited and 山東泰康藥業有限公司 (Shandong Tai Kang Pharmacy Company Limited) jointly set up Dezhou Xinhua Tai Kang Pharmacy Company Limited ("Dezhou Pharmacy"), with a registered share capital of RMB600,000. Zibo Xinhua Pharmacy Company Limited is holding 60% of the shareholding. Dezhou Pharmacy commenced operations in September 2001, causing no substantial impact on the assets and net assets of the Company. In accordance with the equity method, its results were not incorporated in the consolidated statements.

## 12. FIXED ASSETS

	Plant & building	Machinery & equipment	Motor Vehicle	Motor Apparatus	Total
Cost					
2000.12.31	236,702	632,383	18,951	8,840	896,876
Additions	33,970	19,140	5,277	2,599	60,986
Include: transferred from CIP	30,963	2,884	0	0	33,847
Disposal		9,818	1,005	793	11,616
2001.12.31	270,672	641,705	23,223	10,646	946,246
Accumulated depreciation					
2000.12.31	134,454	307,953	10,325	8,267	460,999
Additions	13,972	48,055	1,645	2,443	66,115

Disposal		8,480	993	737	10,210
2001.12.31	148,426	347,528	10,977	9,973	516,904
Net value at 31 December 2000	102,248	324,430	8,626	573	435,877
Net value at 31 December 2001	122,246	294,177	12,246	673	429,342

The original value of the leased houses is 2,824K.

At the end of the period there is no devaluation for the fixed assets and no provision had been made.

### 13. CONSTRUCTION IN PROGRESS

	2001.12.31	2000.12.31
Construction projects	67,653	10,776
Prepayments	14,360	50,959
Total	82,013	61,735

#### 13.1. DETAILED LIST OF CONSTRUCTION PROJECTS

	Opening balance	Additions	Transferred to FA	Transferred to expenses	Closing balance	Source of income	Capital resources	Project progress	Date of Completion
On-off Station	106	1,956	2,062	0	0	Self-owned	2,062	Completed	
Caffeine expansion project	21	11,402	0	0	11,423	Self-owned			To be finished in June.2002
GMP innovation project in Workshop 1	584	1,768	886	1,466	0	Self-owned	2,352	Completed	
Sony land -level Project	642	269	911	0	0	Self-owned	911	Completed	
Research Institute	380	767	1,080	67	0	Self-owned	1,146	Completed	
Sewage disposal	441	648	1,089	0	0	Self-owned	2,505	Completed	
Hydrogen	5	5,136	2,000	0	3,141	Self-owned			To be finished in December.2002
Metals and fittings transfer station	829	806	1,618	17	0	Self-owned	1,635	Completed	
Analgin Project	4,521	17,278	0	0	21,799	Raised fund	39,800		To be finished in December 2002

Comprehensive Building	1,309	7,231	0	0	8,540	Self-owned	5,500	To be finished in June.2002
Tiny powder centre	0	2,531	0	0	2,531	Self-owned	2,000	To be finished in December 2002
1-350 Project	0	12,138	12,138	0	0	Raised fund	29,980	To be finished in December 2002
Caffeine project	0	3,620	0	0	3,620	Raised fund	160,000	To be finished in December 2002
Other projects	1,938	29,544	12,063	2,820	16,599	Self-owned		
Total	10,776	95,094	33,847	4,370	67,653			

Special loan is not used for the construction-in-progress and there is no capitalisation interests.

At the end of the period there is no devaluation for CIP and no provision had been withdrawn.

#### 14. INTANGIBLE ASSETS

	Building use rights	Land use rights
Cost	612	68,211
The original cost at 1 January,2001	584	61,731
Accumulated amortization at 1 January, 2001	28	6,480
Addition	0	8,152
Amortization	28	1,364
Accumulated amortization at 31 December, 2001	56	7,844
Charge for the year	0	0
Net value at 31 December 2001	556	68,519
The remaining years of amortization	22	44

#### 15. SHORT TERM LOANS

	2001.12.31	2000.12.31	Monthly
Interest			

Secured loans	0	0	0
Guaranteed loans	177,100	250,100	4.05% - 5.85%
Trusted loans	5,000	9,000	4.05% - 5.85%
Total	182,100	259,100	

The loans which is guaranteed by Shandong Xinhua Industry & Trade Company Limited is 107,100 K , the loan of which is guaranteed by Shandong Xinhua Pharmaceutical Co, Ltd. is 70,000 K.

There is no loan that was not cleared off on maturity days.

## 16. NOTES PAYABLES

	2001.12.31	2000.12.31
Trade notes payable	0	0
Bankers' notes payable	11,684	27,669
Total	11,684	27,669

The maturity date is from 21 March 2002 to 14 June 2002 .

## 17. ACCOUNTS PAYABLE

	2001.12.31	ratio%	2000.12.31	ratio%
Within 1 year	66,038	92.1%	68,336	92%
1 year to 2 years	2,429	3.34%	2,198	2.96%
2 years to 3 years	2,575	3.54%	1,090	1.47%
Over 3 years	737	1.02%	2,661	3.57%
Total	71,779	100%	74,285	100%

Receivables that were overdue for over 3 years are mainly unsettled goods costs of previous years. The costs were not settled because of non-existence of further business transactions.

There was no account payable due from shareholders who hold 5% or more of the Company's shares.

## 18. DEPOSITS FROM CUSTOMERS

	2001.12.31	ratio%	2000.12.31	ratio%
Within 1 year	10,088	95.12%	4,872	84.77%
1 year to 2 years	362	3.41%	218	3.77%
2 years to 3 years	156	1.47%	433	7.53%
Over 3 years	0	0	224	3.93%
Total	10,606	100%	5,747	100%

Deposits aging over one year that had not been carried forward were mainly balance dues settled with clients.

There was no deposits from customers due from shareholders who hold 5% (including 5% ) or more of the Company's shares.

## 19. DIVIDEND PAYABLE

Name of Shareholders	2001.12.31	2000.12.31	Reasons
State shares	17,155	17,395	Dividend had not been paid this year
Negotiable Stock A-share	6,092	6,092	As above
Negotiable Stock H-share	12,000	12,000	As above
Other	6,432	3,367	As above
Total	41,679	38,854	

## 20. TAX PAYABLES

	2001.12.31	2000.12.31	Taxed ratio
Income tax	-4,437	1,958	15%
VAT	-4,054	1,278	17%
Operating tax	62	32	3% -5%
Urban maintenance construction tax	455	118	7%
Additional Education Expenses	229	51	3%
IIT Payable	0	502	
Land Use Tax Payable	0	192	



Real Estate Tax Payable	0	432	1.2%
Total	-7,745	4,563	

## 21. OTHER PAYABLE

	2001.12.31	ratio%	2000.12.31	ratio%
Within 1 year	18,196	92.28%	11,265	92.8%
1 year to 2 years	754	3.88%	612	5.03%
2 years to 3 years	477	2.46%	153	1.26%
Over 3 years	267	1.38%	114	0.91%
Total	19,694	100%	12,144	100%

Other major payables mainly include education fund for employees amounting to 7,936K, and construction fund payable totalling 4,680K.

Reasons for big amount outstanding for over 3 years: balance due for purchasing equipment, and will be paid after the full term of trial operation.

There was no other payables due from shareholders who hold 5% (including 5% )or more of the Company's shares.

## 22. ACCRUED EXPENSES

	2001.12.31	2000.12.31
Bonus to the directors	1,500	1,000
Audit expenses	1,100	1,500
Total	2,600	2,500

## 23. LONG-TERM LOAN

Banking	Corpus	Yearly Ratio(%)	Period	Condition	Usage
China Import & export Bank	150,000	4.05	2001.9.28-2003.9.28	Guaranteed Loan*	Production turnover

\* The long term loan is guaranteed by Shandong Xinhua Pharmaceutical Group

Company Limited.

## 24. SHARE CAPITAL

	2001.12.31	2000.12.31
Unlisted shares:		
1. Sponsor' share	214,440	217,440
States shares (unlisted shares)	214,440	217,440
Legal persons shares		
2. Collecting Legal person share (unlisted shares)	16,720	16,720
3. Transferring and Allotting shares		
4. Employee shares		
5. Preferred stock and others		
Total	231,160	234,160
Listed shares		
1. Public A shares (listed shares)	76,153	43,153
2. H shares (listed shares)	150,000	150,000
3. Foreign-capital shares in domestic listing	0	0
4. Foreign-capital shares in overseas listing	0	0
Listed negotiable stock total	226,153	193,153
Total stock	457,313	427,313

In September 2001 the Company issued additional ordinary shares 30 million shares in RMB, and meanwhile reduced state shares of 3 million shares, which had been verified by ShineWing Certified Public Accounts in the Verification Report No.A102017.

## 25. CAPITAL SURPLUS

	2000.12.31			2001.12.31
	Opening bal.	Increased	Decreased	Closing bal.
Surplus on asset revaluation	60,910	0	0	60,910
Share premium	156,334	340,517*	0	496,851
Donation	1,158	0	0	1,158

Total	218,402	340,517	0	558,919
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\* In Sept. 2001 the company issued additional ordinary stock 30 million shares amounting to 30k, and received a premium of 340,517K that to increase in capital surplus.

## 26. SURPLUS RESERVE

	2000.12.31			2001.12.31
	Opening bal.	Increased	Decreased	Closing bal.
Statutory surplus reserve	49,025	8,200	0	57,225
Discretionary surplus reserve	45,622	8,090	0	53,712
Statutory employee welfare	18,815	4,100	0	22,915
Total	113,462	20,390	0	133,852

## 27. APPROPRIATION OF PROFIT

	2001.12.31	2000.12.31
Current year profit	97,258	84,675
Less: income tax	16,307	15,489
Minority	55	66
Profit after tax	80,896	69,120
Add: Undistributed profit at beginning of the year	166,519	148,887
Profit available for the year	247,415	218,007
Appropriation of statutory surplus reserve	8,200	6,912
Appropriation of statutory employees welfare reserve	4,100	3,456
Undistributed profit available for the year	235,115	207,639
Less: Dividends distribution	36,585	34,185
Appropriation of discretionary surplus reserve	8,090	6,912
Adjustment for undistributed profit	0	23
Undistributed profit at the end of the year*	190,440	166,519

According to the plan for the dividends distribution, proposed by the Board of Directors cash dividend of RMB 0.08 per share (457,312,830 shares in total) to shareholders is proposed after appropriation of 10%, 5% and 10% the profit after tax to the statutory surplus reserve, the statutory public welfare reserve and the discretionary surplus, respectively.

## 28. SALES & COST

	sales		Cost	
	2001.1-12	2000.1-12	2001.1-12	2000.1-12
Bulk pharmaceuticals	678,666	667,302	494,069	489,792
Include: export sales	416,050	411,336	299,355	299,399
Preparations	398,743	358,968	257,511	229,593
Chemicals and other products	21,849	17,803	15,167	15,613
Total	1,099,258	1,044,073	766,747	734,998

The sales of the top five clients was 167,440K, accounting for 15.23% of the total sale of the company during the period.

## 29. TAX AND ADDITIONALS

	Standard	2001.1-12	2000.1-12
City Construction Tax	7% of VAT payables of this year	4,631	4,781
Education Expenses Additionals	3% of VAT payables of this year	1,985	2,049
Total		6,616	6,830

## 30. OTHER OPERATING PROFIT

item	2001.1-12			2000.1-12		
	Other operating revenue	Other operating cost	Other operating profit	Other operating revenue	Other operating cost	Other operating profit
Sales of materials	44,282	43,437	845	27,219	26,552	667
Sales of water, electricity and gas	10,568	10,485	83	8,729	8,729	0
Technology supplied and rental income	1,799	203	1,596	609	241	368
Rent	2,513	138	2,375	993	55	938
Total	59,162	54,263	4,899	37,550	35,577	1,973

### 31. FINANCIAL EXPENSES

	2001.1-12	2000.1-12
Interest expenses	18,066	21,599
Banking charge	174	105
Less: Interest income	14,667	12,586
Exchange loss	550	703
Less: exchange income	0	0
Others	-1,245	-775
Total	2,878	9,046

Financial expenses declined 68% compared with last year. The reason is that additional shares raised this year resulted in better capital turnover, reduced loan and increased deposit interests.

### 32. INVESTMENT INCOME

	2001.1-12	2000.1-12
Stock investment proceeds		
Other equity investment earnings	3,035	604
Debts investment proceeds		
where: securities proceeds		
Entrusted loan proceeds		
Other debts proceeds		
Pool, joint operation profit distribution		
Increase-decrease amount of the owner's equity by investment which had been adjusted at period end		
Amortization of equity investment balance		
Earning of equity transferring		
Total	3,035	604

Investment proceeds for the year are dividends from long-term equity investment calculated by cost approach, where Rmb330K dividend from Pacific Insurance Agent, 2121K from TianTong Securities, 601K from Bank of Communications, Rmb17K from Dezhou Pharmacy Company Limited.

### 33. NON-OPERATING INCOME

	2001.1-12	2000.1-12
Proceeds from disposal of fixed assets	828	1,496
Fines income	51	30
Others	260	2,496
Total	1,139	4,022

### 34. NON-OPERATING EXPENSES

	2001.1-12	2000.1-12
Loss on disposal of fixed assets	448	1,982
Overdue penalty and fines	2,121	1,528
Donations	0	22
Others	2,955	2,916
Total	5,524	6,448

### 35. NOTES TO THE MOTHER COMPANY

#### 35.1. ACCOUNTS RECEIVABLE

The aging of accounts receivable is as follows:

	Provision for			Provision for		
	2001.12.31	ratio%	bad debt	2000.12.31	ratio%	bad debt
Within 1 year	217,288	89.4%	1,071	189,961	86%	944
1 year to 2 years	15,687	6.45%	1,563	16,690	8%	1,669
2 years to 3 years	9,197	3.78%	1,839	13,695	6%	2,739
Over 3 years	892	0.37%	892	0	0	0
Total	243,064	100%	5,365	220,346	100%	5,352

The balance of the top five of account receivables is 57,040K, is about 23.46% of the

balance of Dec.31,2001.

The receivables overdue for over 3 years written off by the Company were Rmb10,120K.

There was no account receivables due from shareholders who hold 5% or more of the Company's shares.

### 35.2. OTHER RECEIVABLES

The aging analysis for other receivables is as follows:

	2001.12.31	ratio%	Provision for bad debt	2000.12.31	ratio%	Provision for bad debt
Within 1 year	103,711	95.78%	45	67,578	79.4%	43
1 year to 2 years	301	0.3%	30	16,221	19.2%	?
2 years to 3 years	3,989	3.92%	342	219	0.26%	?
Over 3 years	0	0	0	1,000	1.14%	?
Total	108,001	100%	416	85,018	100%	43

The main item of the other receivables is: export backdraw receivables are 40,899K, amounting to 40.07%; sales of rejected products receivables from XinHua Industry & Trade Company 24,071K, accounting for 23.58%.

The interest receivables for the fixed deposit with Industrial & Commercial Bank of China, Zibo Branch, receivables from Group Company and related parties, and receivables unrefunded tax, etc. are not provided for as they are collectable.

The balance of the top five account receivables is 87,230K, accounting for 85.64% of the balance of Decmber 31,2001.

The balance of one of the stockholders, Xinhua Co. Ltd., which holds 46.89% shares of the Company, is 5,951K.

### 35.3. LONG-TERM INVESTMENTS

2000.12.31				2001.12.31		
Opening				Closing		
Balance	lossing	Increased	Decreased	Balance	lossing	

Stock investment	40,082	0	17,183	0	57,265	0
Securities Investment	164	0	0	0	164	0
Total	40,246	0	17,183	0	57,429	0

Include: Long-term stock investment

<b>Name of Company</b>	<b>The period of investment</b>	<b>Investment Amount</b>	<b>% of ownership held</b>
Tiantong Security Co., Ltd.	Long-term	30,000	1.46%
Pacific Insurance Company	Long-term	7,000	0.25%
Shandong HuanZhong Pharmaceutical Company	Long-term	1,500	5.50%
JinRui SiFang Pharmaceutical S&T Investment Co. Ltd	50 years	3,200	6.4%
Communication Bank, Zibo branch	Long-term	13,577	
Zibo Xinhua Big Drug Store	Long-term	1,988	88%
Total	Long-term	57,265	

#### 35.4. SALES & COST

	<b>Sales</b>		<b>Cost</b>	
	<b>2001.1-12</b>	<b>2000.1-12</b>	<b>2001.1-12</b>	<b>2000.1-12</b>
Bulk pharmaceuticals	678,666	667,302	494,069	489,792
Include: export sales	416,050	411,336	299,355	299,399
Preparations	388,145	351,216	250,249	223,863
Chemicals and other products	21,849	17,803	15,167	15,613
Total	1,088,660	1,036,321	759,485	729,268

The sales of the top five clients was Rmb167,440, which is about 15.23% of the total sale of the company during the period.

#### 35.5. INVESTMENT INCOME

2001.1-12      2000.1-12



Stock investment proceeds		
Other equity investment earnings	3,457	1,089
Debts investment proceeds		
where: debenture proceeds		
Entrusted loan proceeds		
Other debts proceeds		
Pool, joint operation profit distribution		
Increase/decrease of the owner's equity by		
investment which had been adjusted at period end		
Amortization of equity investment balance		
Earnings of equity transfer		
Total	3,457	1,089

The investment proceeds for 2001 represents the dividends obtained from the long-term equity investment calculated on the cost method. Of which, Rmb330,000 was generated by Pacific Insurance Company; Rmb2,121,000 by Tiantong Security Co., Ltd.; Rmb601,000 by the Bank of Communications; and Rmb405,000 by Zibo Xinhua Drug Store.

### 36. RELATED PARTIES TRANSACTIONS

#### 36.1. THE GENERAL DESCRIPTIONS OF THE RELATED PARTIES AS AT 31 DECEMBER 2001 ARE AS BELOW:

Name of the related parties	Nature	Representative of legal person	Registration site	Registered capital	Business scope	Relationship with the Company
Shadong Xinhua Pharmaceutical Group Company Limited	Company Limited	He Duanshi	Zhangdi-an, Zibo	RMB 301,500K	Pharmaceutical & chemical production, trade and others	Holding company
Shandong Xinhua Industry & Trade Company Limited	Joint Stock enterprises	Fu Hengqian	Zhangdi-an, Zibo	RMB 23,200K	Production and sales of bulk pharmaceuticals and others	Related party and a subsidiary of the Group Company
Shandong Xinhua Zibo Packing Company Limited	Company Limited	Wang Shoujian	Zhangdi-an, Zibo	RMB 15,400K	Design, production and sale of packing products	Related party and a subsidiary of the Group Company
Shandong Xinhua Zibo Xincat Pharmaceutical Company Limited	Joint Venture	Tao Jingshi	Zhangdi-an, Zibo	USD 2,875K	Production and sales of the bulk pharmaceuticals	Related party and a subsidiary of the Group Company

Shandong Zibo Chemferm Pharmaceutical Company Limited	Joint Venture	Fu Hengqian	Zhangdi-an, Zibo	USD 10,470K	Production and sale of Cephalixin and Cephadrine	Related party and a subsidiary of the Group Company
Shandong Xinhua Zibo Comprehensive Service Company Limited	Company Limited	Mi Chuanh-uang	Zhangdi-an, Zibo	RMB 19,301K	Comprehensive services	Related party and a subsidiary of the Group Company
Shandong Xinhua Zichuan Chemical Company Limited	Company Limited	Zhengdazheng	Zichuan, Zibo	RMB 3,174K	Production and sale of bulk pharmaceuticals	Related party and a subsidiary of the Group Company
Shandong Huantai Fine Chemical Company Limited	Company Limited	Yu Ruixuan	Huantai, Zibo	RMB 4,000K	Chemical production	Related party and a subsidiary of the Group Company
Shandong Xinhua Zibo Sulphuric Acid Manufacturing Company Limited	Company Limited	Xiebingshu	Boshan, Zibo	RMB 7,735K	Production and sales of Chemical products	Related Party and a subsidiary of the Group Company
Shandong Xinhua Zibo Dongfeng Chemical Company Limited	Company Limited	Wangxuyi	Zhangdian, Zibo	RMB 1,500K	Production and sales of Chemical products	Related Party and a subsidiary of the Group Company

## 36.2. THE MAJOR TRANSACTIONS WITH THE RELATED PARTIES ARE DESCRIBED AS FOLLOW:

36.2.1. Sales of products and provision of energy, labour and technology services by the Company to the related parties

		Amount Receivable	Closing balance (Payable)	Notes
Include:	Shandong Xinhua Industry & Trade Company Limited	10,500	24,125	Sales of product
	Zibo Xincat Pharmaceutical Company Limited	1,790	3,420	Power and other services
	Xinhua Chemferm Pharmaceutical Company Limited	4,256	(5,642)	Sales of product and other services
	Shandong Xinhua Zibo Packing Company Limited	1,650	0	Power and other services

36.2.2. Raw materials supplied by the related parties to the Company

	Amount Receivable	Closing balance (Payable)	Notes
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Include:	Shandong Xinhua Industry & Trade Company Limited	(15,200)	0	Raw materials
	Zichuan Chemical Company Limited	(5,772)	(1,875)	Raw materials
	Huantai Fine Chemical Company Limited	(725)	943	Raw materials
	Xinhua Chemfarm Pharmaceutical Company Limited	(15,060)	(4,618)	Raw materials
	Xinhua Packing Company Limited	(18,000)	(6,780)	Raw materials
	Xinhua Comprehensive Service Company	(12,156)	(1,323)	Lawout and other services
	Zibo Dongfeng Chemical Company Limited.	(1,030)	476	Raw materials

### 36.2.3. Other transactions with the Related Parties (advance, loans and etc.)

	Amount Receivable	Closing balance (Payable)	Notes
Include: Shandong Xinhua Pharmaceutical Group Company Limited	19,750	5,951	Loans and advances

In December 2001, land use right of 35,885.1 square metres was purchased from the holding company at the consideration of RMB7,914,000.

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

## 37. CAPITAL COMMITMENTS

### 37.1. AS AT DECEMBER 31 2000, THE COMPANY HAD THE FOLLOWING CAPITAL COMMITMENTS:

	2001.12.31	2000.12.31
Contracted but not yet appropriated	12,881	9,150
Authorized by Directors but not contracted	185,500	127,700
Total	198,381	136,850

### 37.2. THE LISTING OF PROJECTS WHICH ARE AUTHORIZED BY DIRECTORS BUT NOT SIGN CONTRACT.

Projects	2001 investment (Unit: ?000)
Public System Technology Reform	132,000
Scientific research, quality inspection	12,000

New-product development & Monitoring Equipment	25,500
Motive system reconstruct	5,000
Civil Construction Project	11,000
Total	185,500

### **38. CONTINGENT EVENTS**

None

### **39. OTHER MATTERS**

None