# HUBEI SANONDA CO., LTD.
# INTERIM REPORT 2006

**CONTENTS**

## Section I. Important Notice

The Board of Directors of Hubei Sanonda Co., Ltd. (hereinafter referred to as the Company) and its directors individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions or errors which would render any statement misleading.

All directors attended the Board meeting.

Mr. Li Zuorong, Chairman of the Board, Mr. Zheng Xianhai, General Manager, and Mr. He Xuesong, Person in Charge of Financial Affairs, hereby guarantee that the financial report enclosed in this Interim Report 2006 is true and complete.

The interim financial report 2006 of the Company has not been audited.

## Section II. Company Profile

I. Company profile

1. Legal Name of the Company:
   In Chinese: 湖北沙隆达股份有限公司
   In English: Hubei Sanonda Co., Ltd.
2. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock: SANONDA-A, SANONDA -B
   Stock Code: 000553, 200553
3. Registered Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Office Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Post Code: 434001
   Company’s Internet Website: http://www.sanonda.cn
   E-mail: sld@chemchina.com.cn
4. Legal Representative: Li Zuorong
5. Secretary of the Board: Li Zhongxi
   Contact Tel.: 86-716-8208632
   Contact Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Fax: 86-716-8208899
   E-mail: lo_zhongxi@263.net
   Securities Affairs Representative: Liang Jiqin
   Contact Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Tel.: 86-716-8208232
   Fax: 86-716-8208899
   E-mail: freefly@263.net
6. Newspapers Designated by the Company for Disclosing the Information:
   China Securities Journal, Securities Times and Hong Kong Ta Kung Pao
   Internet Website Designated by CSRC for Publishing the Interim Report: http://www.cninfo.com.cn
   Place Where the Interim Report is Prepared and Placed: Office of the Company
7. Other relevant information:
   Initial Registration Date: Nov. 30, 1993

Address: No. 93, Beijing East Road, Jingzhou, Hubei
Registration code business license for Corporation: QGEZ Zi No. 002523
Registration code for tax: 421001706962287
Domestic Certified Public Accountants Engaged by the Company: TianZhi ZiXin CPAs
Address: No. 208, Tower B, Huatong Building, Yi No. 19 Cheng Gong Zhuang West Road, Haidian Dis., Beijing
International Certified Public Accountants Engaged by the Company: Hong Kong Ho and Ho & Company Certified Public Accountants
Address: Arion Commercial Center, II-12 Queen's Rd. West, HK

(II) Major financial data and indexes

1. Major financial data and indexes

Unit: RMB

| **Items** | **At the end of this report period** | **At the end of the last year** | **Increase/decrease at the end of this report period compared with the year-begin（%）** |
|---|---|---|---|
| Current assets | 999,960,238.52 | 974,585,910.50 | 2.60 |
| Current liabilities | 653,804,473.65 | 661,281,640.83 | -1.13 |
| Total assets | 1,673,804,872.05 | 1,667,788,212.86 | 0.36 |
| Shareholders' equity (excluding minority interests) | 894,172,138.39 | 878,945,465.14 | 1.73 |
| Net assets per share | 3.01 | 2.96 | 1.69 |
| Net assets per share after adjustment | 2.92 | 2.89 | 1.04 |
| **Items** | **In the report period** | **At the same period of last year** | **Increase/decrease in this report period compared with the same period of last year (%)** |
| Net profit | 15,087,733.53 | 8,147,983.74 | 85.17 |
| Net profit after deducting non-recurring gains and losses | 14,423,322.14 | 19,060,646.91 | -24.33 |
| Earnings per share | 0.0508 | 0.0274 | 85.40 |
| Return on equity | 1.69% | 0.92% | an increase of 0.77 percent |
| Net cash flow arising from operating activities | 63,127,538.69 | -44,949,960.87 | 40.44 |

| **Items of non-recurring gains and losses** | **Amount** |
|---|---|
| Gains/losses from disposal of fixed assets | 235,569.37 |
| Short-term investment losses | 282,338.06 |
| Non-operating income and expenses (after deducting reserve for devaluation of assets) | 146,503.96 |
| Total | 664,411.39 |

9. Supplementary statement of profit prepared in accordance with Editing and Reporting Rules Regarding Information Disclosure for Companies Publicly Issuing Securities (No. 9) promulgated by CSRC,:

| Profit in the report period | Return on equity (%) | | | | Earnings per share (RMB) | | | |
|---|---|---|---|---|---|---|---|---|
| | Fully diluted | | Weighted average | | Fully diluted | | Weighted average | |
| | Jan.-Jun. 2006 | Jan.-Jun. 2005 | Jan.-Jun. 2006 | Jan.-Jun. 2005 | Jan.-Jun. 2006 | Jan.-Jun. 2005 | Jan.-Jun. 2006 | Jan.-Jun. 2005 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Profit from main operation | 12.05 | 12.41 | 12.05 | 12.41 | 0.3627 | 0.3693 | 0.3627 | 0.3693 |
| Operating profit | 1.90 | 2.30 | 1.90 | 2.30 | 0.0573 | 0.0683 | 0.0573 | 0.0683 |
| Net profit | 1.69 | 0.92 | 1.69 | 0.92 | 0.0508 | 0.0274 | 0.0508 | 0.0274 |
| Net profit after deducting non-recurring gains and losses | 1.61 | 2.16 | 1.61 | 2.16 | 0.0486 | 0.0642 | 0.0486 | 0.0642 |

(III) Explanation on differences in net profit as of the report period as calculated under CAS and IAS respectively:

In the report period, the Company's net profit audited according to CAS and IAS was no difference, namely RMB 15,087,733.53.

## Section III. Change in Share Capital and Particulars about Shares Held by Main Shareholders

I. Total shares of the Company and its structure remained unchanged in the report period due to implementing share allotment, capital public reserve transferring into share capital, issuance of new share or T-bond issuance or other reasons. But the Company has completed the share merger reform plan before the said interim report was disclosed, namely on Aug. 3, 2006. For the change in structure of share capital of the Company, please refer to the public notice on implementing of share merger reform published in China Securities Journal, Securities Times and Hong Kong Ta Kung Pao as well as http://www.cninfo.com.cn on Aug. 1, 2006.

II. At the end of the report period, the Company had 37255 shareholders in total, including 24213 shareholders of A-share and 13042 shareholder of B-share.

III. At the end of the report period, shares held by the top ten shareholders are as follows:

Unit: share

| **Total number of shareholders** | | **37255 shareholders in total, including 24213 shareholders of tradable A-share** | | | |
|---|---|---|---|---|---|
| **Particulars about shares held by the top ten shareholders** | | | | | |
| **Name of shareholders** | **Nature of shareholders** | **Proportion (%)** | **Total number of shares held (share)** | **Number of nontradable shares held** | **Share pledged or frozen** |
| SANONDA GROUP CORPORATION | State-owned shareholder | 27.52% | 81,726,625 | 81,726,625 | 42,910,000 |
| QICHUN COUNTY STATE-OWNED ASSETS ADMINISTRATION BUREAU | State-owned shareholder | 1.01% | 3,002,709 | 3,002,709 | |
| YUHUA SECURITIES INVESTMENT FUND | Tradable A-share | 0.54% | 1,599,970 | | |
| ABN AMRO BANK NV | Foreign shareholder | 0.42% | 1,245,600 | | |
| SHEN YING | Foreign shareholder | 0.34% | 1,020,800 | | |

| | | | | | |
|---|---|---|---|---|---|
| TAIJI INVESTMENT CO., LTD. | Foreign shareholder | 0.34% | 1,000,000 | | |
| GUANGQI INVESTMENT CO., LTD. | Foreign shareholder | 0.34% | 1,000,000 | | |
| HUANG JUN YUE | Foreign shareholder | 0.28% | 823,570 | | |
| LU JIA HUA | Tradable A-share | 0.27% | 808,971 | | |
| TAN DONG SHAN | Foreign shareholder | 0.26% | 763,460 | | |

| **Particulars about shares held by the top ten shareholders of tradable share** | | |
|---|---|---|
| **Name of shareholders** | **Numbers of tradable share held at the end of the report period** | **Type of share** |
| YUHUA SECURITIES INVESTMENT FUND | 1,599,970 | A-share |
| ABN AMRO BANK NV | 1,245,600 | B-share |
| SHEN YING | 1,020,800 | B-share |
| TAIJI INVESTMENT CO., LTD. | 1,000,000 | B-share |
| GUANGQI INVESTMENT CO., LTD. | 1,000,000 | B-share |
| HUANG JUN YUE | 823,570 | B-share |
| LU JIA HUA | 808,971 | A-share |
| TAN DONG SHAN | 763,460 | B-share |
| WANG HU SEN | 714,600 | A-share |
| ZHAO LI JIE | 700,000 | B-share |
| Explanation on associated relationship among the top ten shareholders or acting-in-concert | The Company was unknown whether there is any associated relationship among the top ten shareholders of tradable share, or whether there is any action-in-concert among them as described by the Administrative Rules on Information Disclosure about Changing of Shareholding Status. | |

IV. The Company's controlling shareholder and actual controller remained unchanged during the report period.

## Section IV. Particulars about Directors, Supervisors and Senior Management

I. In the report period, the shares of the Company held by directors, supervisors and senior management remained unchanged.

II. In the report period, particulars about engagements and dismissals of directors, supervisors and senior executives

As examined and approved by the Shareholders' General Meeting 2005 of the Company held on June 30, 2006, Mr. Li Zuorong, Mr. Zheng Xianhai, Mr. Liu Xingping, Mr. He Fuchun, Mr. He Xuesong, Mr. Deng Guobin, Mr. Liu Anping, Mr. Yu Jingzhong, Mr. Li Shouming and Ms. Li Hui were elected as member of the 5$^{th}$ Board of Directors respectively, among which, Mr. Yu Jingzhong, Mr. Li Shouming and Ms. Li Hui were Independent Director of the 5$^{th}$ Board of Directors. Mr. Zhang Jianguo, Mr. Xu Baojian, Ms. Liu Jun, Mr. Yang Guang and Mr. Jiang Chenggang were elected as supervisor of the 5$^{th}$ Supervisory Committee respectively, among which, Mr. Zhang Jianguo and Mr. Xu Baojian were Employee Supervisor of the 5$^{th}$ Supervisory Committee.

As examined and approved by the 1$^{st}$ Meeting of the 5$^{th}$ Board of Directors held on

June 30, 2006, Mr. Li Zuorong was elected as Chairman of the 5th Board of Directors, and Mr. Zheng Xianhai was elected as Vice Chairman of the 5th Board of Directors. Mr. Zheng Xianhai was engaged as General Manager of the Company, Mr. He Fuchun and Mr. Deng Guobin was respectively engaged as Deputy General Manager of the Company. Mr. He Xuesong was engaged as CFO of the Company; Mr. Liu Anping was engaged as Assistant General Manager; Mr. Li Zhongxi was engaged as Secretary of the Board; Mr. Liang Jiqin was engaged as Securities Affairs Representative of the Board.

As examined and approved by the 1st Meeting of the 5th Supervisory Committee held on June 30, 2006, Mr. Zhang Jianguo was elected as Chairman of the 5th Supervisory Committee.

## Section V. Discussion and Analysis of the Management

I. Operating results in the report period

In the report period, surrounding the production and operation target established at the year-begin, the Company continuously deepened enterprise reformation, promoted system renovation, optimized structure of product, and vigorously exploited market, intensified enterprise management, strengthened the construction of enterprise culture and strived to improve economic operating quality, thus, the Company's main economic indexes sustained increase by a certain range. In the first half year of 2006, the Company realized an income from main operations of RMB 769.36 million, up 23.31% year-on-year; created foreign currency amounting to USD 33.4 million through export, and increase of 15.09% over that of the same period of last year; achieved a net profit of RMB 15.09 million, an increase of 85.17% compared with the same period of last year. The Company produced chemical pesticides of 19,000 tons, basically keeping the same level compared with the same period of last year, as well as caustic soda of 46,000 tons, up 12.44% year-on-year.

II. Operation in the report period

(I) Scope of main operations

The business scope of the Company is production and sale of pesticides and chemical products.

(II) Operation of main operations

1. In the report period, main operations were listed as follows classified according to products:

Unit: RMB'0000

| Products | Income from main operations | Cost of main operations | Gross profit ratio (%) | Increase/decrease in income from main operations over the same period of last year (%) | Increase/decrease in cost of main operations over the same period of last year (%) | Increase/decrease in gross profit ratio over the same period of last year (%) |
|---|---|---|---|---|---|---|
| Pesticides | 57,344.15 | 49,161.86 | 14.27 | 34.68 | 41.14 | -3.92 |
| Chemicals | 19,591.76 | 16,958.55 | 13.44 | -0.88 | 2.60 | -2.94 |
| Others | | | | -100 | -100 | -10.96 |
| Total | 76,935.91 | 66,120.41 | 14.06 | 23.31 | 28.63 | -3.55 |

2. In the report period, main operations were listed as follows classified according to areas:

Unit: RMB’0000

| Areas | Income from main operations | | Cost of main operations | | Increase/decrease in income from main operations over the same period of last year (%) |
|---|---|---|---|---|---|
| | Jan.-Jun. 2006 | Jan.-Jun. 2005 | Jan.-Jun. 2006 | Jan.-Jun. 2005 | |
| Domestic | 51,760.83 | 40,766.39 | 44,866.55 | 35,186.21 | 26.97 |
| Overseas | 25,175.08 | 21,624.13 | 21,253.87 | 16,215.80 | 16.42 |
| Total income | 76,935.91 | 62,390.52 | 66,120.42 | 51,402.01 | 23.31 |

3. Explanation on items in relatively great changes:

| Items | Proportion of changes (%) | Reasons for changes |
|---|---|---|
| Short-term investments | -100% | Sales of shares held by the Company |
| Notes receivable | -38.71% | Settlement due to maturity of notes |
| Accounts receivable | 30.45% | Increase of sales and the longer of retractation period of goods payment |
| Subsidy receivable | -36.88% | The partial export rebates received |
| Construction in progress | 58.79% | Increase of moving imidacloprid project and electrobath project |
| Accounts in advance | -56.36% | Funds received in advance in the last year, clients picked up the goods in this year |
| Tax payable | 43.35% | Decrease of excess items input |
| Other payable | 33.66% | Annuity public welfare in paying |
| Accrued expense | 2507% | Unpaid of accrued expense s such as repairing, interest and transportation and insurance fee. |
| Tax and extra of main operations | 97.14% | Increase of sales |
| Other operating profit | -34.86% | Decrease of sales of materials and foreign labor service |
| Investment income | 104% | Loss of short-term investment in the same period of last year |
| Non-operating income | 130.84% | Disposal of the partial idle equipments |
| Non- operating expense | -89.02% | Penalty by Wuhan Custom Revenue in the same period of last year |
| Total profit | 88.61% | Increase of investment income and non-operating income/expense |

(IV) There was no other operating activity impacting significant influence on the profits in the report period.

(V) No investment yield from a single shareholding company in the report period has influenced the Company’s net profit by 10%.

(VI) Problems and difficulties during operation and solutions

Problems encountered during operation in the report period are mainly as follows:

1. Due to the price increase of the power for industrial users, the power cost of the Company has increased. 2. The prices of major chemical products have slumped, exerting a negative influence upon the gross profit ratio of the sales. 3. The accounts receivable and inventories still take up a large proportion in the Company’s assets, exerting a negative influence upon the capital operation efficiency of the Company. 4. Some substitute products do not sell well, limiting the increase of the Company’s total

sales amount.
Targeting the aforesaid difficulties, the Company has enlarged price comparison and purchase through bidding, so as to reduce purchase costs; strengthened technology creation and practiced benchmarking, so as to reduce production costs; tightened financial management, enlarged financing channels and promoted the work of cutting staff, reducing liabilities and internal reform; put into full play of the product advantages of the Company and enlarged product export.

III. Investments in the report period
(I) Use of raised proceeds
The Company has neither raised any proceeds nor used any proceeds that were raised in previous periods.
(II) Use of non-raised proceeds in the report period: mainly for the technological transformation
IV. The 3rd quarter is the peak season of the Company's production and operation. According to the Company's estimation, it would continue to make profit during the period between the 1st quarter and the 3rd quarter.

## Section V. Significant Events

I. Corporate governance
In the report period, the Company has made punctual revision of the relevant provisions in the Articles of Association according to relevant laws, regulations and various normative documents on corporate governance, incessantly tightened the management of the investor relations, answered questions brought up by shareholders of the Company in time and protected the interests of the Company's shareholders, especially small and medium investors.
With the duties endowed by the Articles of Association of the Company, the Board of Directors of the Company has made decisions prudently according to the Rules of Procedure for the Board of Directors. The Company has established special committee of the Board of Directors, set the rules on the implementation by the special committee and established the remuneration and incentive system for senior executives.
The supervisors of the Company have conducted supervision over the Company's finance, directors and senior executives according to their duties endowed by the Articles of Association as well as the Rules of Procedure for the Supervisory Committee.
The Company's governance has basically met the relevant regulations provided in the Rules on the Administration of Listed Companies, but the number of independent directors does not amount for one third of the Board of Directors for the time being as according to the requirements of the Guidelines on Independent Directors.
II. Implementation of profit distribution
According to the resolutions made at the Shareholders' General Meeting 2005, the Company would neither distribute any profit for the year 2005 nor capitalize any public reserves into share capital. During the upper half year 2006, the Company has

neither distributed any profit for the year 2005 nor capitalized any public reserves into share capital.

III. There were no significant lawsuits or arbitrations in the report period.

IV. There were no significant purchases or sales of assets or mergers.

V. Important related transactions:

1) Related transactions

| Name of enterprise | Type of transaction | Pricing policy | Amount January – June 2006 | Amount January – June 2005 |
|---|---|---|---|---|
| ChemChina Agrochemical Corporation | Purchase of goods | Market price | 17,541,111.54 | |
| Jingzhou Dali Industrial Co., Ltd | Purchase of goods | Market price | 4,910,520.68 | 6,015,109.83 |
| Jingzhou Fude Foods General Factory | Purchase of goods | Market price | 4,339,705.06 | 4,351,168.89 |
| Hubei Datian Chemical Co., Ltd | Purchase of goods | Market price | 496,427.35 | 668,353.85 |
| Jingzhou Jianghan Pharmaceutical Co., Ltd | Purchase of goods | Market price | | 1,395,384.19 |
| Total | | | **27,287,764.63** | **12,430,016.76** |

2) Balances of the accounts receivable and payable by related parties

| Name of related party | Nature of the capital balance | Amount on Jun. 30, 2006 | Proportion taking up the total balance | Amount on Dec. 31, 2005 | Proportion taking up the total balance |
|---|---|---|---|---|---|
| Accounts receivable: | | | | | |
| Jingzhou Tianyang Huibao Chemical Co., Ltd. | Payment for goods | 490,178.95 | 0.17% | 244,816.00 | 0.11% |
| Jinzhou Sanonda Coal Chemical Industrial Company | Payment for goods | 1,093,938.23 | 0.38% | 1,984,015.87 | 0.85% |
| Jinzhou Sanonda Aifusi Chemical Co., Ltd | Payment for goods | 75,318.44 | 0.03% | | |
| Other accounts receivable: | | | | | |
| Hubei Fengyuan Chemical Co., Ltd | Loans | 38,231,452.07 | 37.72% | 48,187,016.62 | 38.48% |
| Beijing TH-UNIS Insight Chemical Technology Co., Ltd | Current funds | 128,987.00 | 0.13% | 128,987.00 | 0.10% |
| Jingzhou Tianyang Huibao Chemical Co., Ltd. | Loans | 1,500,000.00 | 1.48% | 2,300,000.00 | 1.84% |
| Jingzhou Sanonda Weixun Chemical Co., Ltd. | Current funds | 228,000.00 | 0.22% | 458,340.05 | 0.37% |
| Jinzhou Sanonda Aifusi Chemical Co., Ltd | Loans | 500,000.00 | 0.49% | 500,000.00 | 0.40% |
| Jinzhou Sanonda Coal Chemical Industrial Company | Loans | 500,592.55 | 0.49% | 1,924,000.00 | 1.54% |

| | | | | | |
|---|---|---|---|---|---|
| Beijing Sanonda Technology and Trade Development Co., Ltd | Loans | | | 5,956,624.89 | 4.76% |
| Advance payment: | | | | | |
| Hubei Datian Chemical Co., Ltd | Payment for goods and loans | 2,928,859.50 | 8.89% | 2,833,859.50 | 9.58% |
| Jingzhou Fude Foods General Factory | Payment for goods | 3,474,887.26 | 10.55% | 4,942,342.18 | 16.71% |
| Accounts payable: | | | | | |
| Jingzhou Fude Foods General Factory | Payment for goods | 55,262.00 | 0.04% | 55,262.00 | 0.04% |
| Jingzhou Dali Industrial Co., Ltd | Payment for goods | 1,095,541.24 | 0.73% | 1,052,332.44 | 0.79% |
| Other accounts payable: | | | | | |
| Beijing TH-UNIS Insight Chemical Technology Co., Ltd | Current funds | 400,000.00 | 0.66% | 400,000.00 | 0.69% |
| Sanonda Group Company | Current funds | 3,804,966.61 | 6.26% | 337,121.25 | 0.58% |

Of the related transactions in the interim of 2006, the related sales and purchases are all the Company's regular production activities. The Company has followed the principle of being sustainable and mutual-benefiting, and the prices of the related transactions have been based upon the market price. The transactions have been carried out legally, transparently and fairly, and all the related creditors' rights and liabilities have all been within the reasonable range.

By Dec. 31, 2005, the Company's capital occupied by the controlling shareholder Sanonda Group Company and related parties amounted to RMB 55.88 million, of which RMB 3.71 was operating occupation and RMB 52.17 million was non-operating occupation. Ended Apr. 20, 2006, Sanonda Group Company and related parties had repaid RMB 55.07 million to the Company, of which RMB 52.17 was the repayment for non-operating occupation.

3) There was no other related transaction in the report period.

VI. Important contracts and their implementation

(1) In the report period, the Company did not trust, contract and lease the assets of other companies or vice versa.

(2) Guarantees

The Company had no external guarantees in the report period, and all the Company's guarantees were for shareholding subsidiaries, with details as follows:

| **Warrantor** | **Warrantee** | **Warrantee's relationship with the Company** | **Guarantee amount (RMB'0000)** | **Overdue amount (RMB'0000)** | **Status of the warrantee** | **Notes** |
|---|---|---|---|---|---|---|
| Hubei Sanonda Co., Ltd | Sanonda Zhengzhou Pesticide Co., Ltd. | Shareholding subsidiary | 1000 | | Operation normal | Loan |
| Hubei Sanonda Co., Ltd | Sanonda Zhengzhou Pesticide Co., Ltd. | Shareholding subsidiary | 1500 | | Operation normal | Loan |
| Hubei Sanonda Co., Ltd | Sanonda Zhengzhou Pesticide Co., Ltd. | Shareholding subsidiary | 1000 | | Operation normal | Loan |
| Hubei Sanonda Co., Ltd | Sanonda (Jingzhou) Pesticide Chemical | Shareholding subsidiary | 1071 | 1071 | Operation normal | Loan |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Co., Ltd. | | | | | |
| Hubei Sanonda Co., Ltd | Sanonda (Jingzhou) Pesticide Chemical Co., Ltd. | Shareholding subsidiary | 99 | 99 | Operation normal | Loan |
| Hubei Sanonda Co., Ltd | Sanonda (Jingzhou) Pesticide Chemical Co., Ltd. | Shareholding subsidiary | 200 | 200 | Operation normal | Loan |
| Hubei Sanonda Co., Ltd | Sanonda (Jingzhou) Pesticide Chemical Co., Ltd. | Shareholding subsidiary | 165 | 165 | Operation normal | Loan |
| Hubei Sanonda Co., Ltd | Sanonda (Jingzhou) Pesticide Chemical Co., Ltd. | Shareholding subsidiary | USD 840 thousand | USD 840 thousand | Operation normal | Loan |
| Hubei Sanonda Co., Ltd | Hubei Sanonda Foreign Trade Co., Ltd | Shareholding subsidiary | USD 10 million | | Operation normal | Documentary letter of credit |
| Hubei Sanonda Co., Ltd | Hubei Sanonda Foreign Trade Co., Ltd | Shareholding subsidiary | USD 3 million | | Operation normal | Documentary letter of credit |
| Hubei Sanonda Co., Ltd | Hubei Sanonda Foreign Trade Co., Ltd | Shareholding subsidiary | 5000 | | Operation normal | Documentary letter of credit |
| Hubei Sanonda Co., Ltd | Sanonda Zhengzhou Pesticide Co., Ltd. | Shareholding subsidiary | 1000 | | Operation normal | Bankers' acceptance bills |
| Hubei Sanonda Foreign Trade Co., Ltd | Sanonda (Jingzhou) Pesticide Chemical Co., Ltd. | Shareholding subsidiary | 30 | 30 | Operation normal | Loan |
| Total in RMB | | | 11,065 | 1,535 | | |
| Total in USD | | | USD 13.84 million | USD 840 thousand | | |

After careful inspection, the independent directors of the Company believed that the Company had strictly implemented relevant regulations provided in ZJF (2003) Document No. 56, all the guarantees had been provided for subsidiaries with over 50% equity held by the Company and for their regular production financing needs, and that the Company had not provided any guarantee for the controlling shareholder or other related parties.

VII. The Company or the shareholders holding over 5% shares of the Company had no commitments made in the report period or continuing to the report period that should be disclosed.

VIII. The interim report of the Company had not been audited.

IX. In the report period, the Company, the Board of Directors of the Company and its directors were not checked, administratively punished and criticized by circulars by CSRC and was not condemned in public by Shenzhen Stock Exchange.

X. Important events after the Balance Sheet Date

The Share Merger Reform has been accomplished; the trading of the Company's A shares was resumed on Aug. 3, 2006, and the consideration shares have also started circulating.

1) The Share Merger Reform plan of the Company was that the shareholders holding non-circulating shares should pay all the shareholders holding circulating A shares 2.2 shares for each 10 shares held by the shareholders holding circulating A shares as

consideration, and the total shares to be paid amounted to 21,391,100 shares.

2) Changes of the equity structure before and after the implementation of the Share Merger Reform

| Before the implementation | | | After the implementation | | |
|---|---|---|---|---|---|
| | **Share number** | **Proportion taking up the total share capital** | | **Share number** | **Proportion taking up the total share capital** |
| I. Unlised shares | 84,729,334 | 28.53% | I. Circulating shares with restrictions on sale | 63,386，006 | 21.34% |
| Promoter State shares | 84,729,334 | 28.53％ | State-owned legal person shares | 61,093,601 | 20.57% |
| | | | State shares | 2,244,633 | 0.76% |
| | | | Senior executive shares | 47,772 | 0.01% |
| II. Total circulating shares | 212,232,276 | 71.47% | II. Circulating shares without restrictions on sales | 233,575,604 | 78.66% |
| A shares, including: senior executive shares 39, 1 | 97,232,276 | 32.74% | A share social public shares | 118,575,604 | 39.93% |
| B shares | 115,000,000 | 38.73% | B shares | 115,000,000 | 38.73% |
| III. Total shares | 296,961,610 | 100.00% | III. Total shares | 296,961,610 | 100.00% |

3) Times expected for the listing and trading of restricted circulating shares

| No. | Name of shareholder | Number of shares with restrictions on sales (share) | Proportion of shares held | Time for listing and trading |
|---|---|---|---|---|
| 1 | Sanonda Group Company | 61,093,600 | 20.57% | Aug. 3, 2009 |
| 2 | Qichun County State-owned Assets Administration Bureau | 2,244,633 | 0.76% | Aug. 3, 2007 |

XI. Indexes to the other important information

All the important information that needs to be disclosed by the Company has been disclosed in the China Securities Journal and Securities Times as well as on the Juchao website (www.cninfo.com.cn), with details as follows:

| Date of the public notice | Number of the public notice | Title of the public notice | Other media published on |
|---|---|---|---|
| Jan. 7, 2006 | 2006-01 | Public Notice on the Resolutions Made at the 21st Meeting of the 4th Board of Directors | Ta Kung Pao |
| Jan. 7, 2006 | 2006-02 | Independent Opinions of the Independent Directors on the By-Election of Directors and Senior Executives | Ta Kung Pao |
| Jan. 7, 2006 | 2006-03 | Public Notice on the 8th Meeting of the 4th Supervisory Committee | Ta Kung Pao |
| Jan. 24, 2006 | 2006-04 | Public Notice on the 22nd Meeting of the 4th Board of Directors | Ta Kung Pao |
| Apr. 21, 2006 | 2006-05 | Public Notice on the 23rd Meeting of the 4th Board of Directors | Ta Kung Pao |
| Apr. 21, 2006 | 2006-06 | Public Notice on the 9th Meeting of the 4th Supervisory Committee | Ta Kung Pao |
| Apr. 21, 2006 | 2006-07 | Summary of the Annual Report 2005 (A shares) | Ta Kung Pao |
| Apr. 21, 2006 | 2006-08 | 1st Quarterly Report 2006 | Ta Kung Pao |
| Apr. 21, 2006 | 2006-09 | Summary of the Annual Report 2005 (B shares) | Ta Kung Pao |

| | | | |
|---|---|---|---|
| May 31, 2006 | 2006-010 | Public Notice on the 24th Meeting of the 4th Board of Directors | Ta Kung Pao |
| May 31, 2006 | 2006-011 | Public Notice on the 10th Meeting of the 4th Supervisory Committee | Ta Kung Pao |
| May 31, 2006 | 2006-012 | Public Notice on the Postponement of Share Merger Reform | Ta Kung Pao |
| Jun. 19, 2006 | 2006-013 | Public Notice on Reminding of the Share Merger Reform | |
| Jun. 21, 2006 | 2006-014 | Notice on the Convening of the Relevant Shareholders' General Meeting of the A-Share Market | |
| Jun. 30, 2006 | 2006-015 | Public Notice on the Disclosure Postponement of the Deliberation Results on the Share Merger Reform | |

## Section VII. Financial Report (unaudited)

## Section VIII. Documents Available for Reference

I. Text of Interim Report with signature of the Board of Directors of the Company.
II. Financial Statements carried with signatures and seals of Legal Representatives and Accounting Principal.
III. All public notices ever disclosed on China Securities Journal, Securities Times and Hong Kong Ta Kung Pao in the report period.
IV. The Articles of Association of the Company.
V. Other relevant information.

**Chairman of the Board: Li Zuorong**
**Hubei Sanonda Co., Ltd.**
Aug. 16, 2006

## Attachment:

# Balance Sheet

Hubei Sanonda Co., Ltd. Jun. 30, 2006 Unit: RMB

| Assets | Note | Jun. 30, 2006 | | Dec. 31, 2005 | |
|---|---|---|---|---|---|
| | | Consolidation | Parent company | Consolidation | Parent company |
| Current assets: | | | | | |
| Monetary funds | V.1 | 286,222,407.46 | 181,433,011.24 | 242,216,990.77 | 139,326,247.30 |
| Short-term investment | V.2 | | | 642,093.82 | 642,093.82 |
| Notes receivable | V.3 | 33,383,927.57 | 23,529,615.57 | 54,465,226.30 | 50,568,978.97 |
| Dividends receivable | | 78,391.33 | 78,391.33 | 78,391.33 | 78,391.33 |
| Interests receivable | | | | | |
| Accounts receivable | V.4, VI.1 | 248,481,439.73 | 135,173,838.44 | 190,483,331.01 | 91,834,497.63 |
| Other receivable | V.5, VI.2 | 85,741,392.92 | 263,169,745.04 | 111,819,350.63 | 217,724,875.30 |
| Accounts in advance | V.6 | 32,942,600.63 | 22,448,572.11 | 29,583,138.93 | 17,779,299.18 |
| Subsidy receivable | V.7 | 4,607,841.43 | | 7,300,355.73 | |
| Inventories | V.8 | 306,752,230.71 | 160,466,783.18 | 336,197,835.16 | 191,394,017.39 |
| Expenses to be apportioned | V.9 | 1,750,006.74 | 1,593,425.03 | 1,799,196.82 | 745,231.86 |
| Long-term credit investment due within 1 year | | | | | |
| Other current assets | | | | | |
| **Total current assets** | | 999,960,238.52 | 787,893,381.94 | 974,585,910.50 | 710,093,632.78 |
| Long-term investment: | | | | | |
| Long-term equity investment | V.10, VI.3 | 35,361,422.96 | 109,052,024.62 | 35,361,422.96 | 111,127,453.12 |
| Long-term credit investment | | | | | |
| Consolidated price difference | V.10 | 1,470,289.06 | | 1,470,289.06 | |
| Total long-term investment | | 36,831,712.02 | 109,052,024.62 | 36,831,712.02 | 111,127,453.12 |
| Fixed assets: | | | | | |
| Original price of fixed assets | V.11 | 933,559,844.97 | 712,782,560.01 | 944,293,802.85 | 727,048,834.19 |
| Less: Accumulated depreciation | V.11 | 468,473,693.67 | 345,092,137.11 | 454,373,540.20 | 335,308,193.39 |
| Net value of fixed assets | V.11 | 465,086,151.30 | 367,690,422.90 | 489,920,262.65 | 391,740,640.80 |
| Less: Provision for devaluation of fixed assets | V.11 | 11,772,068.54 | 1,090,718.63 | 11,772,068.54 | 1,090,718.63 |
| Net amounts of fixed assets | | 453,314,082.76 | 366,599,704.27 | 478,148,194.11 | 390,649,922.17 |
| Engineering material | V.12 | 2,030,214.66 | 2,010,314.66 | 2,049,814.66 | 2,010,314.66 |
| Construction in progress | V.13 | 21,729,155.61 | 16,485,505.48 | 13,684,310.81 | 8,749,026.84 |

| | | | | | |
|---|---|---|---|---|---|
| Disposal of fixed assets | | | | | |
| **Total fixed assets** | | 477,073,453.03 | 385,095,524.41 | 493,882,319.58 | 401,409,263.67 |
| Intangible and other assets | | | | | |
| Intangible assets | V.14 | 159,699,095.17 | 115,450,691.87 | 162,199,077.43 | 116,862,201.89 |
| Long-term expenses to be apportioned | V.15 | 240,373.31 | | 289,193.33 | |
| Other long-term assets | | | | | |
| **Total intangible and other assets** | | 159,939,468.48 | 115,450,691.87 | 162,488,270.76 | 116,862,201.89 |
| Deferred tax: | | | | | |
| Deferred tax-borrowing item | | | | | |
| Total assets | | 1,673,804,872.05 | 1,397,491,622.84 | 1,667,788,212.86 | 1,339,492,551.46 |

Legal representative: Li Zuorong　　Person in charge of accounting organ: He Xuesong
Person in charge of accounting work: He Xuesong

**Balance Sheet (Con.)**

Hubei Sanonda Co., Ltd　　Jun. 30, 2006　　Unit: RMB

| **liabilities and shareholders' equity** | **Note** | **Jun. 30, 2006** | | **Dec. 31, 2005** | |
|---|---|---|---|---|---|
| | | **Consolidation** | **Parent company** | **Consolidation** | **Parent company** |
| Current liabilities: | | | | | |
| Short-term loans | V.16 | 321,250,000.00 | 251,000,000.00 | 309,350,000.00 | 226,000,000.00 |
| Notes payable | V.17 | 65,367,000.00 | 40,000,000.00 | 73,006,036.00 | 15,487,536.00 |
| Accounts payable | V.18 | 150,146,672.42 | 86,585,957.02 | 144,374,955.70 | 84,569,136.13 |
| Accounts prepay | V.19 | 36,825,775.22 | 13,759,067.19 | 84,377,568.09 | 25,208,221.29 |
| Wages payable | | | | | |
| Welfare funds payable | | 3,654,619.79 | -1,271,359.50 | 4,316,876.10 | |
| Dividends payable | | | | | |
| Taxes payable | | | | | |
| Other duties payable | V.20 | -7,752,788.60 | -2,631,180.98 | -13,686,510.39 | -7,044,374.02 |
| Other accounts payable | | 2,357,453.78 | 2,239,512.14 | 1,763,826.07 | 1,650,355.58 |
| Accrued expenses | V.21 | 60,735,100.67 | 11,503,761.14 | 46,783,152.35 | 12,464,048.19 |
| Projected liabilities | V.22 | 10,632,716.81 | 2,452,018.05 | 407,813.35 | 156,714.04 |
| Long-term liabilities due within 1 year | | | | | |
| Other current liabilities | | | | | |
| **Total current liabilities** | V.23 | 10,587,923.56 | | 10,587,923.56 | |
| Taxes payable | | | | | |
| Other duties payable | | 653,804,473.65 | 403,637,775.06 | 661,281,640.83 | 358,491,637.21 |
| Long-term liabilities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Long-term loans | V.24 | 90,000,000.00 | 90,000,000.00 | 90,000,000.00 | 90,000,000.00 |
| Bonds payable | | | | | |
| Long-term accounts payable | | | | | |
| Special accounts payable | V.25 | 12,542,100.00 | 5,185,200.00 | 14,776,900.00 | 7,420,000.00 |
| Other long-term liabilities | | | | | |
| **Total long-term liabilities** | | 102,542,100.00 | 95,185,200.00 | 104,776,900.00 | 97,420,000.00 |
| Deferred tax: | | | | | |
| Deferred tax-credit item | | | | | |
| **Total liabilities** | | 756,346,573.65 | 498,822,975.06 | 766,058,540.83 | 455,911,637.21 |
| Minority interests | | 23,286,160.01 | | 22,784,206.89 | |
| Shareholders' equity | | | | | |
| Share capital | V.26 | 296,961,610.00 | 296,961,610.00 | 296,961,610.00 | 296,961,610.00 |
| Less: investment returned | | | | | |
| Net share capital | V.26 | 296,961,610.00 | 296,961,610.00 | 296,961,610.00 | 296,961,610.00 |
| Capital reserve | V.27 | 566,756,587.94 | 566,756,587.94 | 566,756,587.94 | 566,756,587.94 |
| Surplus reserve | V.28 | 57,285,245.67 | 57,285,245.67 | 57,285,245.67 | 57,285,245.67 |
| Including: Statutory welfare funds | V.28 | 17,823,386.34 | 17,823,386.34 | 17,823,386.34 | 17,823,386.34 |
| Unconfirmed investment loss（listed with "-"） | | -4,496,509.39 | | -4,635,449.11 | |
| Retained profit | V.29 | -22,334,795.83 | -22,334,795.83 | -37,422,529.36 | -37,422,529.36 |
| Including: cash dividend | | | | | |
| Foreign currency exchange difference | | | | | |
| Total shareholders' equity | | 894,172,138.39 | 898,668,647.78 | 878,945,465.14 | 883,580,914.25 |
| **Total liabilities and shareholders' equity** | | 1,673,804,872.05 | 1,397,491,622.84 | 1,667,788,212.86 | 1,339,492,551.46 |

Legal representative: Li Zuorong　　Person in charge of accounting organ: He Xuesong

Person in charge of accounting work: He Xuesong

**Income Statement and Statement of Profit Distribution**

Hubei Sanonda Co., Ltd　　Jun. 30, 2006　　Unit: RMB

| Items | Note | Jan. – Jun. 2006 | | Jan. – Jun. 2005 | |
|---|---|---|---|---|---|
| | | Consolidated | Parent Company | Consolidated | Parent Company |
| I. Income from main operations | V.30、VI.4 | 769,359,097.69 | 496,342,148.44 | 623,905,190.42 | 382,496,481.10 |
| Less: Cost of main operations | V.30、VI.4 | 661,204,146.23 | 427,741,707.94 | 514,020,075.14 | 315,660,493.07 |
| Taxes and extras of main operations | | 443,095.68 | 116,031.35 | 224,764.02 | 140,718.40 |
| Ⅱ. Profit from main operations (listed with "-" as loss) | | 107,711,855.78 | 68,484,409.15 | 109,660,351.26 | 66,695,269.63 |

| | | | | | |
|---|---|---|---|---|---|
| Add: Other operating profit (listed with “-” as loss) | V.31 | 2,996,433.68 | 1,925,134.57 | 4,599,914.31 | 1,856,761.12 |
| Less: Operating expenses | V.32, VI.5 | 35,795,235.80 | 25,118,528.72 | 34,680,483.86 | 20,134,183.26 |
| Administrative expenses | | 45,645,298.58 | 28,286,250.74 | 45,399,527.82 | 27,797,200.45 |
| Financial expenses | V.33、 | 12,263,877.52 | 6,678,170.32 | 13,899,963.67 | 8,199,218.58 |
| Ⅲ. Operating profit (listed with “-” as loss) | | 17,003,877.56 | 10,326,593.94 | 20,280,290.22 | 12,421,428.46 |
| Add: Investment income (listed with “-” as loss) | V.34, VI.6 | 282,338.06 | 4,444,077.22 | -6,548,230.67 | -4,264,718.35 |
| Subsidy income | | | | | |
| Non-operating income | | 904,287.35 | 735,945.39 | 391,731.21 | 342,980.11 |
| Less: Non-operating expenses | | 522,214.02 | 418,883.02 | 4,756,163.71 | 351,706.48 |
| Ⅳ.Total profit (listed with “-” as loss) | | 17,668,288.95 | 15,087,733.53 | 9,367,627.05 | 8,147,983.74 |
| Less: Income tax | | 1,246,643.95 | | 1,392,220.44 | |
| Minority interests | | 1,194,971.74 | | -227,700.68 | |
| Add: amount of unconfirmed investment loss occurred in the current period | | -138,939.73 | | -55,123.55 | |
| V. Net profit (listed with “-” as loss) | | 15,087,733.53 | 15,087,733.53 | 8,147,983.74 | 8,147,983.74 |
| Add: Retained earnings at the year-beginning | | -37,422,529.36 | -37,422,529.36 | -38,583,618.19 | -38,583,618.19 |
| Other transfer-ins | | | | | |
| VI. Profit available for distribution | | -22,334,795.83 | -22,334,795.83 | -30,435,634.45 | -30,435,634.45 |
| Less: appropriating statutory surplus reserve | | | | | |
| Appropriating statutory public welfare reserve | | | | | |
| Appropriating bonus and welfare funds | | | | | |
| Appropriating reserve fund | | | | | |
| Appropriating enterprise development fund | | | | | |
| Profits capitalized on return of investment | | | | | |
| VII. Profit available for distribution to shareholders | | -22,334,795.83 | -22,334,795.83 | -30,435,634.45 | -30,435,634.45 |
| Less: Dividend for preferred shares payable | | | | | |
| Appropriating discretionary reserve | | | | | |
| Dividend for ordinary shares | | | | | |
| Dividend for ordinary shares converted to share capital | | | | | |
| VIII. Retained earnings | | -22,334,795.83 | -22,334,795.83 | -30,435,634.45 | -30,435,634.45 |

| **Supplemental information** | **Note** | **Amount as of this year** | | **Amount in the last year** | |
|---|---|---|---|---|---|
| | | **Consolidation** | **Parent company** | **Consolidation** | **Parent company** |
| 1. Profit from selling or disposing branch or investee | | | | | |
| 2. Losses from natural disaster | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| (listed with "-" as loss) | | | | | |
| 3. Increase (or decrease) in total profit due to the changes of accounting policies | | | | | |
| 4. Increase (or decrease) in total profit due to the changes of accounting estimation | | | | | |
| 5. Loss on debts restructure(listed with "-" as loss) | | | | | |
| 6. Other non-recurring gains and losses (listed with "-" as loss) | | | | | |

Legal representative: Li Zuorong　　Person in charge of accounting organ: He Xuesong

Person in charge of accounting work: He Xuesong

## Cash Flow Statement

Hubei Sanonda Co., Ltd　　Jun. 30, 2006　　Unit: RMB

| Items | Note | Amount | |
|---|---|---|---|
| | | **Consolidation** | **Parent company** |
| Ⅰ. Cash flows arising from operating activities: | | | |
| Cash received from selling commodities and providing labor services | | 706,962,876.35 | 488,893,019.59 |
| Write-back of tax received | | 8,203,358.81 | |
| Other cash received concerning operating activities | V.35 | 54,393,177.95 | 45,160,799.14 |
| Subtotal of cash inflows | | 769,559,413.11 | 534,053,818.73 |
| Cash paid for purchasing commodities and receiving labor service | | 631,098,135.46 | 432,194,500.62 |
| Cash paid to/for staff and workers | | 52,358,832.67 | 34,922,739.37 |
| Taxes paid | | 5,001,803.30 | 1,214,554.27 |
| Other cash paid concerning operating activities | V.36 | 17,973,102.99 | 21,881,697.33 |
| Subtotal of cash outflows: | | 706,431,874.42 | 490,213,491.59 |
| Net cash flows arising from operating activities | | 63,127,538.69 | 43,840,327.14 |
| II. Cash flows arising from investing activities: | | | |
| Cash received from recovering investment | | 864,900.40 | 864,900.40 |
| Including: cash received from selling subsidiaries | | | |
| Cash received from investment income | | | |
| Net cash received from disposal of fixed, intangible and other long-term assets | | 3,653,124.00 | 3,645,124.00 |
| Other cash received concerning investing activities | | | |
| Subtotal of cash inflows: | | 4,518,024.40 | 4,510,024.40 |
| Cash paid for purchasing fixed, intangible and other long-term assets | | 23,582,078.52 | 21,903,587.60 |
| Cash paid for investment | | | |
| Including: cash paid from purchasing subsidiaries | | | |

| | | | |
|---|---|---|---|
| Other cash paid concerning investing activities | | 30,526.89 | |
| Subtotal of cash outflows: | | 23,612,605.41 | 21,903,587.60 |
| *Net cash flows arising from investing activities* | | -19,094,581.01 | -17,393,563.20 |
| Ⅲ. Cash flows arising from financing activities | | | |
| Cash received from absorbing investment | | | |
| Cash received from loans | | 206,000,000.00 | 151,000,000.00 |
| Other cash received concerning financing activities | | 539,489.64 | |
| Subtotal of cash inflows | | 206,539,489.64 | 151,000,000.00 |
| Cash paid for repaying debts | | 194,100,000.00 | 126,000,000.00 |
| Cash paid for dividend and profit distributing or interest paying | | 12,247,619.64 | 9,340,000.00 |
| Other cash paid concerning financing activities | | 219,410.99 | |
| Subtotal of cash outflows: | | 206,567,030.63 | 135,340,000.00 |
| *Net cash flows arising from financing activities* | | -27,540.99 | 15,660,000.00 |
| IV. Influence on cash due to fluctuation in exchange rate | | | |
| V. Net increase of cash and cash equivalents | | 44,005,416.69 | 42,106,763.94 |

Legal representative: Li Zuorong Person in charge of accounting organ: He Xuesong

Person in charge of accounting work: He Xuesong

**Cash Flow Statement (Con.)**

Hubei Sanonda Co., Ltd Jun. 30, 2006 Unit: RMB

| Items | **Note** | Amount | |
|---|---|---|---|
| | | Consolidation | Parent company |
| Supplemental information: | | | |
| **I. Adjusting net profit to cash flows for operating activities** | | | |
| Net profit | | 15,087,733.53 | 15,087,733.53 |
| Add: * Minority interests | | 1,194,971.74 | |
| Less: * Unconfirmed investment loss | | -138,939.73 | |
| Add: Appropriating provisions for devaluation assets | | 2,579,990.90 | 2,210,378.51 |
| Depreciation of fixed assets | | 30,819,662.09 | 24,719,554.46 |
| Amortization of intangible assets | | 2,026,023.83 | 1,411,510.02 |
| Amortization of long-term expenses to be apportioned | | 41,683.35 | |
| Decrease of expenses to be apportioned (Less: increase) | | -250,809.92 | -848,193.17 |
| Increase of accrued expenses (Les: decrease) | | 13,809,281.32 | 2,295,304.01 |
| Loss on disposal of fixed, intangible and other long-term assets | | -231,484.79 | -225,569.37 |
| Loss on rejection of fixed assets | | | |
| Financial expenses | | 10,457,489.35 | 6,681,811.75 |

| | | | |
|---|---|---|---|
| Loss of investment (Less: income) | | -282,338.06 | -4,444,077.22 |
| Deferred taxes-borrowing (less: credit) | | | |
| Decrease of inventories (Less: increase) | | 31,782,446.23 | 30,927,234.21 |
| Decrease of receivables in operating(Less: increase) | | -80,994,969.80 | -62,658,695.56 |
| Increase of payables in operating(Less: decrease) | | 36,948,919.19 | 28,683,335.97 |
| Other | | | |
| Net cash flows arising from operating activities | | 63,127,538.69 | 43,840,327.14 |
| **II. Investing and financing activities with no cash incomings/outgoings involved** | | | |
| Capital transferred from debts | | | |
| Convertible company bonds due within one year | | | |
| Fixed assets leasing from financing | | | |
| Other | | | |
| **III. Net increase of cash and cash equivalents:** | | | |
| Balance of cash at the end of the period | | 286,222,407.46 | 181,433,011.24 |
| Less: Balance of cash at the begin of the period | | 242,216,990.77 | 139,326,247.30 |
| Add: Balance of cash equivalents at the end of the period | | | |
| Less: Balance of cash equivalents at the begin of the period | | | |
| Net increase of cash and cash equivalents | | 44,005,416.69 | 42,106,763.94 |

Legal representative: Li Zuorong　　Person in charge of accounting organ: He Xuesong

Person in charge of accounting work: He Xuesong

## Statement of Provision for Devaluation of Assets（Consolidation）

Hubei Sanonda Co., Ltd　　Jan-Jun. 2006　　Unit: RMB

| Items | Line | Balance at the begin of the period | Increase in this period | Switching in this period | | | Balance at the end of the period |
|---|---|---|---|---|---|---|---|
| | | | | Switching back due to assets price recovery | Switching back due to other reason | Total | |
| ① | | ② | ③ | ④ | ⑤ | ⑥ | ⑦ |
| Ⅰ. Total reserve for bad debts | 1 | 55,604,708.30 | 2,573,786.90 | × | × | | 58,178,495.20 |
| Including: Accounts receivable | 2 | 42,203,962.45 | 361,628.97 | × | × | | 42,565,591.42 |
| Other receivables | 3 | 13,400,745.85 | 2,212,157.93 | × | × | | 15,612,903.78 |
| Ⅱ. Total reserve for falling price of short-term investment | 4 | 51,186.17 | | | 51,186.17 | 51,186.17 | |
| Including: Stocks investment | 5 | 51,186.17 | | | 51,186.17 | 51,186.17 | |
| Bonds investment | 6 | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ⅲ. Reserve for falling price of inventories | 7 | 8,175,417.92 | | | 284,801.52 | 284,801.52 | 7,890,616.40 |
| Including: Merchandise inventories | 8 | 7,206,354.29 | | | | | 7,206,354.29 |
| Raw material | 9 | 698,858.62 | | | 263,878.63 | 263,878.63 | 434,979.99 |
| Ⅳ. Total reserve for devaluation of long-term investment | 10 | 11,991,017.37 | | | | | 11,991,017.37 |
| Including: Long-term equity investment | 11 | 11,991,017.37 | | | | | 11,991,017.37 |
| Long-term debt investment | 12 | | | | | | |
| Ⅴ. Total reserve for devaluation of fixed assets | 13 | 11,772,068.54 | | | | | 11,772,068.54 |
| Including: Building | 14 | 1,090,718.63 | | | | | 1,090,718.63 |
| Machinery and equipment | 15 | 10,681,349.91 | | | | | 10,681,349.91 |
| Ⅵ. Reserve for devaluation of intangible assets | 16 | 8,672,093.53 | | | | | 8,672,093.53 |
| Including: Patent right | 17 | | | | | | |
| Trademark right | 18 | | | | | | |
| Ⅶ. Reserve for devaluation of construction in progress | 19 | 517,604.98 | | | | | 517,604.98 |
| Ⅷ. Reserve for devaluation of commission loan | 20 | | | | | | |
| Ⅸ. Total | 21 | 96,784,096.81 | 2,573,786.90 | | 335,987.69 | 335,987.69 | 99,021,896.02 |

Legal representative: Li Zuorong　　Person in charge of accounting organ: He Xuesong

Person in charge of accounting work: He Xuesong

## Statement of Provision for Devaluation of Assets（Parent company）

Hubei Sanonda Co., Ltd　　Jan-Jun. 2006　　Unit: RMB

| Items | Line | Balance at the begin of the period | Increase in this period | Switching in this period | | | Balance at the end of the period |
|---|---|---|---|---|---|---|---|
| | | | | Switching back due to rising of fixed assets | Switching back due to other reason | Total | |
| ① | | ② | ③ | ④ | ⑤ | ⑥ | ⑦ |
| Ⅰ. Total reserve for bad debts | 1 | 40,323,276.91 | 2,210,378.51 | × | × | | 42,533,655.42 |
| Including: Accounts receivable | 2 | 28,495,671.68 | 4,836.04 | × | × | | 28,500,507.72 |
| Other receivables | 3 | 11,827,605.23 | 2,205,542.47 | × | × | | 14,033,147.70 |
| Ⅱ. Total reserve for falling price of short-term investment | 4 | 51,186.17 | | | 51,186.17 | 51,186.17 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Including: Stocks investment | 5 | 51,186.17 | | | 51,186.17 | 51,186.17 | |
| Bonds investment | 6 | | | | | | |
| Ⅲ. Reserve for falling price of inventories | 7 | 3,371,977.80 | | | | | 3,371,977.80 |
| Including: Merchandise inventories | 8 | 3,371,977.80 | | | | | 3,371,977.80 |
| Raw material | 9 | | | | | | |
| Ⅳ. Total reserve for devaluation of long-term investment | 10 | 11,991,017.37 | | | | | 11,991,017.37 |
| Including: Long-term equity investment | 11 | 11,991,017.37 | | | | | 11,991,017.37 |
| Long-term debt investment | 12 | | | | | | |
| Ⅴ. Total reserve for devaluation of fixed assets | 13 | 1,090,718.63 | | | | | 1,090,718.63 |
| Including: Building | 14 | 1,090,718.63 | | | | | 1,090,718.63 |
| Machinery and equipment | 15 | | | | | | |
| Ⅵ. Reserve for devaluation of intangible assets | 16 | 8,672,093.53 | | | | | 8,672,093.53 |
| Including: Patent right | 17 | | | | | | |
| Trademark right | 18 | | | | | | |
| Ⅶ. Reserve for devaluation of construction in progress | 19 | | | | | | |
| Ⅷ. Reserve for devaluation of commission loan | 20 | | | | | | |
| Ⅸ. Total | 21 | 65,500,270.41 | 2,210,378.51 | | 51,186.17 | 51,186.17 | 67,659,462.75 |

Legal representative: Li Zuorong　　Person in charge of accounting organ: He Xuesong

Person in charge of accounting work: He Xuesong