

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2001

1. GENERAL

The Company is a listed public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company’s ultimate holding company is Shijiazhuang Pharmaceutical Group Company Limited (“SPG”), a state-owned enterprise established under the laws of The People’s Republic of China (the “PRC”). SPG, together with the companies under its control other than members of the Group, will hereinafter be referred to as the “SPG Group”.

The Company’s subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these Standards has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of the new and revised Standards has resulted in the following change to the Group’s accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment. The effect of this change has been to increase the Group’s net assets at January 1, 2000 by \$40,933,000.

Goodwill

In the current period, the Group has adopted SSAP 30 *Business Combinations* and has elected not to restate goodwill previously eliminated against reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiary, associate or jointly controlled entity and the date of adoption of SSAP 30 have been recognised retrospectively. Goodwill arising on acquisitions prior to January 1, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as further impairment losses are identified.

Goodwill arising on acquisitions on or after January 1, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions on or after January 1, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the historical cost convention and accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, and is stated net of value-added tax and sales returns during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Service income is recognised when services are rendered.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any identified impairment losses.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the relevant jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred.

Property, plant and equipment

Construction in progress is stated at cost which includes all construction costs and other direct costs, including borrowing costs capitalised, attributable to such projects. Construction in progress is not depreciated until completion of construction. Costs on completed construction works are transferred to the relevant category of property, plant and equipment.

Property, plant and equipment other than construction in progress is stated at cost less depreciation, amortisation and accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

| | |
|--|-----------|
| Buildings in the PRC | 3.3% – 5% |
| Plant and machinery | 5% – 10% |
| Furniture, fixtures and office equipment | 20% |
| Motor vehicles | 20% |

The cost of land use rights is amortised on a straight line basis over the period of the rights.

Intangible assets

The cost of technical know-how is amortised on a straight line basis over its expected useful life of ten years.

The cost of rights to use utilities is amortised on a straight line basis over their estimated useful lives of ten years.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Research and development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its estimated useful life.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition.

Goodwill arising on acquisitions prior to January 1, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after January 1, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES – continued**Foreign currencies – continued**

On consolidation, the financial statements of the PRC subsidiaries and jointly controlled entity are translated into Hong Kong dollars at the applicable rates of exchange ruling on the balance sheet date as quoted by the People's Bank of China, the PRC. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefits scheme contributions

The subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the PRC government and the retirement benefits scheme contributions charged to the income statement represent the amount of contributions payable by the subsidiaries in the PRC to their retirement benefits schemes.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the relevant leases.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2001

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined business segments are its primary reporting format and geographical segments are its secondary reporting format.

Business segments

The Group reports its primary segment information by products which are penicillin series, 7-ACA series, vitamin C series and others. Segment information about these products is presented below:

2001

| | Penicillin series <i>HK\$'000</i> | 7-ACA series <i>HK\$'000</i> | Vitamin C series <i>HK\$'000</i> | Others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--|---|------------------------------------|--|---------------------------|---------------------------------|
| TURNOVER | | | | | |
| Sales of goods | 510,405 | 353,080 | 286,734 | 18,025 | 1,168,244 |
| SEGMENT RESULT | 108,855 | 103,276 | 822 | (6,848) | 206,105 |
| Unallocated corporate expenses | | | | | (15,305) |
| Profit from operations | | | | | 190,800 |
| Finance costs | | | | | (27,102) |
| Impairment of goodwill of an associate | | | | | (2,032) |
| Gain on disposal of subsidiaries | | | | | 4,051 |
| Share of profit of a jointly controlled entity | | | | | 5,183 |
| Profit before taxation | | | | | 170,900 |
| Taxation | | | | | (29,315) |
| Profit before minority interests | | | | | 141,585 |
| Minority interests | | | | | (1,579) |
| Profit attributable to shareholders | | | | | 140,006 |

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

| | Penicillin series <i>HK\$'000</i> | 7-ACA series <i>HK\$'000</i> | Vitamin C series <i>HK\$'000</i> | Others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|---|------------------------------------|--|---------------------------|---------------------------------|
| ASSETS | | | | | |
| Segment assets | 816,398 | 665,271 | 686,127 | 12,446 | 2,180,242 |
| Interest in a jointly controlled entity | | | | | 19,110 |
| Unallocated corporate assets | | | | | 10,580 |
| Consolidated total assets | | | | | 2,209,932 |
| LIABILITIES | | | | | |
| Segment liabilities | 136,345 | 102,456 | 110,564 | 377 | 349,742 |
| Unallocated corporate liabilities | | | | | 528,956 |
| Consolidated total liabilities | | | | | 878,698 |

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2001

4. SEGMENT INFORMATION – continued

Business segments – continued

2001 – continued

| | Penicillin series HK\$'000 | 7-ACA series HK\$'000 | Vitamin C series HK\$'000 | Others HK\$'000 | Corporate HK\$'000 | Consolidated HK\$'000 |
|-------------------------------|----------------------------------|-----------------------------|---------------------------------|--------------------|-----------------------|--------------------------|
| OTHER INFORMATION | | | | | | |
| Capital expenditure | 30,080 | 232,849 | 28,928 | 10,611 | 110 | 302,578 |
| Depreciation and amortisation | 48,783 | 22,040 | 30,980 | 1,825 | 342 | 103,970 |
| Impairment loss recognised | – | – | 3,543 | – | – | 3,543 |
| Allowance for doubtful debts | 3,133 | 2,167 | 4,300 | – | – | <u>9,600</u> |

2000

| | Penicillin series HK\$'000 | 7-ACA series HK\$'000 | Vitamin C series HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|--|----------------------------------|-----------------------------|---------------------------------|--------------------|--------------------------|
| TURNOVER | | | | | |
| Sales of goods | <u>428,798</u> | <u>230,793</u> | <u>317,677</u> | <u>17,828</u> | <u>995,096</u> |
| SEGMENT RESULT | <u>73,373</u> | <u>41,891</u> | <u>36,903</u> | <u>(14,301)</u> | 137,866 |
| Unallocated corporate income | | | | | 3,051 |
| Unallocated corporate expenses | | | | | (11,197) |
| Profit from operations | | | | | 129,720 |
| Finance costs | | | | | (29,843) |
| Loss on dissolution of a subsidiary | | | | | (1,081) |
| Share of loss of an associate | | | | | (290) |
| Share of profit of a jointly controlled entity | | | | | 3,779 |
| Profit before taxation | | | | | 102,285 |
| Taxation | | | | | (21,364) |
| Profit before minority interests | | | | | 80,921 |
| Minority interests | | | | | (448) |
| Profit attributable to shareholders | | | | | <u>80,473</u> |

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2001

4. SEGMENT INFORMATION – continued

Business segments – continued

2000 – continued

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

| | Penicillin series <i>HK\$'000</i> | 7-ACA series <i>HK\$'000</i> | Vitamin C series <i>HK\$'000</i> | Others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|---|------------------------------------|--|---------------------------|---------------------------------|
| ASSETS | | | | | |
| Segment assets | 739,709 | 375,541 | 701,549 | 115,924 | 1,932,723 |
| Interest in a jointly controlled entity | | | | | 14,713 |
| Unallocated corporate assets | | | | | 2,767 |
| Consolidated total assets | | | | | <u>1,950,203</u> |
| LIABILITIES | | | | | |
| Segment liabilities | 88,771 | 53,411 | 99,998 | 47,344 | 289,524 |
| Unallocated corporate liabilities | | | | | 473,219 |
| Consolidated total liabilities | | | | | <u>762,743</u> |

| | Penicillin series <i>HK\$'000</i> | 7-ACA series <i>HK\$'000</i> | Vitamin C series <i>HK\$'000</i> | Others <i>HK\$'000</i> | Corporate <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|-------------------------------|---|------------------------------------|--|---------------------------|------------------------------|---------------------------------|
| OTHER INFORMATION | | | | | | |
| Capital expenditure | 50,076 | 50,635 | 2,231 | 40,175 | 1,184 | 144,301 |
| Depreciation and amortisation | 45,599 | 19,147 | 29,841 | 864 | 147 | 95,598 |
| Impairment loss recognised | – | – | 9,320 | 7,930 | – | 17,250 |
| Allowance for doubtful debts | 2,200 | – | 9,830 | – | – | 12,030 |

Geographical segments

The Group's operations are located in the PRC, Asia other than the PRC and others. Segment information about the Group's operations is presented below:

| | Turnover | |
|-------------------------|-------------------------|-----------------|
| | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The PRC | 868,203 | 755,159 |
| Asia other than the PRC | 157,375 | 122,892 |
| Others | 142,666 | 117,045 |
| | <u>1,168,244</u> | <u>995,096</u> |

For the year ended December 31, 2001

4. SEGMENT INFORMATION – continued

Geographical segments – continued

Contribution to profit by geographical market has not been presented as the contributions to profit from each market is substantially in the line with the overall Group ratio of profit to turnover.

Analysis of carrying amounts of segment assets and capital expenditure are not presented as over 90% of amounts involved are in the PRC.

5. PROFIT FROM OPERATIONS

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit from operations has been arrived at after charging: | | |
| Amortisation of intangible assets included in administrative expenses | 15,255 | 13,250 |
| Auditors' remuneration | | |
| – current year | 1,100 | 1,100 |
| – underprovision in prior year | – | 80 |
| Depreciation and amortisation | 88,715 | 82,348 |
| Loss on disposal of property, plant and equipment | 3,596 | 25 |
| Research and development expenses | 267 | 1,284 |
| Staff costs including directors' remuneration | 87,109 | 74,688 |
| and after crediting: | | |
| Bank interest income | 1,238 | 5,210 |
| Interest income from loan receivables | 900 | 1,425 |
| | 15,255 | 92,700 |

6. FINANCE COSTS

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Borrowing cost | 2,475 | – |
| Interest paid on bank loans wholly repayable within five years | 24,627 | 29,783 |
| Interest paid to connected parties (note 40 (I)) | 1,288 | 60 |
| | 28,390 | 29,843 |
| Total recognised finance costs | 28,390 | 29,843 |
| Less: interest capitalised in construction in progress | (1,288) | – |
| | 27,102 | 29,843 |

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2001

7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

| | 2001 | 2000 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| DIRECTORS | | |
| Directors' fees: | | |
| Executive | 160 | 100 |
| Independent non-executive | 120 | 120 |
| | 280 | 220 |
| Other emoluments of executive directors: | | |
| Salaries and other benefits | 3,255 | 3,176 |
| | 3,535 | 3,396 |

The emoluments of each of the directors were below HK\$1,000,000 for each of the two years ended December 31, 2001.

EMPLOYEES

Of the five highest paid individuals in the Group, two (2000: two) were directors of the Company whose emoluments are set out above. The aggregate emoluments of the remaining three highest paid individuals are as follows:

| | 2001 | 2000 |
|-----------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries and other benefits | 2,038 | 1,999 |

The emoluments of each of these employees were below HK\$1,000,000 for each of the two years ended December 31, 2001.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

For the year ended December 31, 2001

8. TAXATION

| | 2001 | 2000 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The charge comprises: | | |
| PRC income tax | | |
| – current year | 28,529 | 16,439 |
| – underprovision in prior year | – | 2,251 |
| Share of taxation of a jointly controlled entity | 786 | 2,674 |
| | 29,315 | 21,364 |

No Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiaries since they had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The taxation charge has taken into account of these tax incentives.

The jointly controlled entity, which was established in the PRC, is also entitled to similar PRC tax relief as the above subsidiaries.

Details of unrecognised deferred tax assets are set out in note 30.

9. DIVIDEND

A final dividend of HK3.6 cents (2000: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

During 2000, a final dividend of HK3.3 cents per share was paid in respect of the year ended December 31, 1999.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2001 | 2000 |
|--|------------------------|-----------------------|
| Profit attributable to shareholders | HK\$140,006,000 | HK\$80,473,000 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 1,240,447,279 | 1,240,429,301 |
| Effect of dilutive potential ordinary shares in respect of share options | 20,934,321 | 16,000,000 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 1,261,381,600 | 1,256,429,301 |

The computation of diluted earnings per share does not assume the exercise of the Company's then outstanding warrants as the exercise price of those warrants was higher than the fair value of the shares throughout the year ended December 31, 2000 and until the date of expiration of the warrants in October 2001.

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For the year ended December 31, 2001

11. PROPERTY, PLANT AND EQUIPMENT

| | Land use rights in the PRC <i>HK\$'000</i> | Buildings in the PRC <i>HK\$'000</i> | Plant and machinery <i>HK\$'000</i> | Furniture, fixtures and office equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Construction in progress <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|--|---|--|--------------------------------------|--|--------------------------|
| THE GROUP | | | | | | | |
| COST | | | | | | | |
| At January 1, 2001 | 23,725 | 156,457 | 1,118,432 | 1,414 | 14,256 | 24,314 | 1,338,598 |
| Additions | 1,871 | 323 | 6,407 | 163 | 2,041 | 266,882 | 277,687 |
| Transfers | – | 59,336 | (4,218) | – | 480 | (55,598) | – |
| Disposals | – | (4,522) | (17,344) | (24) | (2,342) | – | (24,232) |
| Disposal of subsidiaries | – | (23,179) | (63,057) | – | – | – | (86,236) |
| | <u>25,596</u> | <u>188,415</u> | <u>1,040,220</u> | <u>1,553</u> | <u>14,435</u> | <u>235,598</u> | <u>1,505,817</u> |
| | | | | | | | |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At January 1, 2001 | 1,344 | 17,621 | 246,347 | 465 | 6,523 | – | 272,300 |
| Provided for the year | 1,233 | 6,857 | 77,800 | 294 | 2,531 | – | 88,715 |
| Eliminated on disposals | – | (3,027) | (11,275) | – | (862) | – | (15,164) |
| Eliminated on disposal of subsidiaries | – | (2,034) | (13,867) | – | – | – | (15,901) |
| Impairment loss | – | 548 | 2,995 | – | – | – | 3,543 |
| | <u>2,577</u> | <u>19,965</u> | <u>302,000</u> | <u>759</u> | <u>8,192</u> | <u>–</u> | <u>333,493</u> |
| | | | | | | | |
| NET BOOK VALUE | | | | | | | |
| At December 31, 2001 | <u>23,019</u> | <u>168,450</u> | <u>738,220</u> | <u>794</u> | <u>6,243</u> | <u>235,598</u> | <u>1,172,324</u> |
| At December 31, 2000 | <u>22,381</u> | <u>138,836</u> | <u>872,085</u> | <u>949</u> | <u>7,733</u> | <u>24,314</u> | <u>1,066,298</u> |

The directors have reviewed the carrying value of property, plant and equipment of the Group at December 31, 2001. An impairment loss of HK\$2,995,000 on plant and machinery has been recognised in the consolidated income statement, representing the difference between the valuation under discounted cash flow method, using a discount rate of 4.24%, and the carrying amount of the plant and machinery. The Group has also recognised impairment loss of HK\$548,000 on buildings with reference to the valuation made by Chesterton Petty Limited, an independent firm of professional property valuers, on an estimated selling price.

Included in construction in progress was interest cost capitalised amounting to HK\$1,288,000 (2000: Nil).

The land use rights and buildings in the PRC held by the Group at the balance sheet date are held under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2001

11. PROPERTY, PLANT AND EQUIPMENT – continued

| | Furniture, fixtures and office equipment | Motor vehicles | Total |
|--------------------------------------|---|---------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| THE COMPANY | | | |
| COST | | | |
| At January 1, 2001 | 596 | 1,005 | 1,601 |
| Additions | 109 | – | 109 |
| | <hr/> | <hr/> | <hr/> |
| At December 31, 2001 | 705 | 1,005 | 1,710 |
| | <hr/> | <hr/> | <hr/> |
| DEPRECIATION AND AMORTISATION | | | |
| At January 1, 2001 | 124 | 50 | 174 |
| Provided for the year | 141 | 201 | 342 |
| | <hr/> | <hr/> | <hr/> |
| At December 31, 2001 | 265 | 251 | 516 |
| | <hr/> | <hr/> | <hr/> |
| NET BOOK VALUE | | | |
| At December 31, 2001 | <u>440</u> | <u>754</u> | <u>1,194</u> |
| At December 31, 2000 | <u>472</u> | <u>955</u> | <u>1,427</u> |

12. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits for the year ended December 31, 2000 were paid in connection with the expansion of the Group's production facilities in the PRC which were fully written off during the year.

13. INVESTMENTS IN SUBSIDIARIES

| | 2001 | 2000 |
|------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted investment, at cost | <u>484,225</u> | <u>394,421</u> |

Particulars of the Company's subsidiaries as at December 31, 2001 are set out in note 41.

14. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are not expected to be repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2001

15. INTANGIBLE ASSETS

| | Technical know-how <i>HK\$'000</i> | Development costs <i>HK\$'000</i> | Utility rights <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------|--|---|--|---------------------------------|
| COST | | | | |
| At January 1, 2001 | 47,097 | 20,367 | 51,795 | 119,259 |
| Additions | 3,170 | 21,721 | – | 24,891 |
| At December 31, 2001 | <u>50,267</u> | <u>42,088</u> | <u>51,795</u> | <u>144,150</u> |
| AMORTISATION | | | | |
| At January 1, 2001 | 25,173 | 8,020 | 7,178 | 40,371 |
| Provided for the year | 5,292 | 4,783 | 5,180 | 15,255 |
| At December 31, 2001 | <u>30,465</u> | <u>12,803</u> | <u>12,358</u> | <u>55,626</u> |
| NET BOOK VALUE | | | | |
| At December 31, 2001 | <u>19,802</u> | <u>29,285</u> | <u>39,437</u> | <u>88,524</u> |
| At December 31, 2000 | <u>21,924</u> | <u>12,347</u> | <u>44,617</u> | <u>78,888</u> |

The cost of technical know-how is amortised on a straight line basis over its expected useful life of ten years.

The cost of rights to use utilities is amortised on a straight line basis over their estimated useful lives of ten years.

Development costs are deferred and written off, using the straight line method, over a period of three years from date of commencement of commercial operation.

16. INVESTMENT IN AN ASSOCIATE

| | THE COMPANY | |
|--|--------------------------------|--------------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Unlisted shares, at cost less impairment losses recognised | – | 2,322 |
| Share of net assets of an associate | – | – |
| | <u>–</u> | <u>2,322</u> |

Details of the associate which was held directly by the Company at December 31, 2001 are as follows:

| Name of associate | Place of incorporation | Proportion of nominal value of issued capital held by the Company | Principal activity |
|--------------------------|-----------------------------------|--|------------------------------------|
| Rigg Far East Limited | Hong Kong | 30% | Trading of pharmaceutical products |