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 resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity. The adoption of the following new and revised accounting policies has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior adjustment has been required.

Foreign currencies

The revisions to SSAP 11 ''Foreign Currency Translation'' have eliminated the choice of translating the income statements of overseas subsidiaries, associates and jointly controlled entities at the closing rate for the year. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) ''Cash Flow Statements''. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group has adopted SSAP 34 ''Employee Benefits'', which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group's participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with 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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of 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, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or 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.

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.

3. **SIGNIFICANT ACCOUNTING POLICIES – continued**

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less 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.

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.

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.

The Company's investment in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

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 accumulated depreciation, amortisation and impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

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.

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.

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.

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.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it incurred.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 initially at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's PRC subsidiaries and jointly controlled entity are translated at exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the year as quoted by the People's Bank of China, the PRC. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income, or as expenses in the period in which the operation is disposed of.

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.

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 bulk drugs, including penicillin series, cephalosporin series and vitamin C series, finished drugs and others. Segment information about these products is presented below:

2002

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External sales	524,284	498,797	362,093	234,796	5,160	–	1,625,130
Inter-segment sales	59,726	25,722	–	–	–	(85,448)	–
TOTAL TURNOVER	584,010	524,519	362,093	234,796	5,160	(85,448)	1,625,130

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULT	105,007	106,158	68,403	31,403	90		311,061
Unallocated corporate expenses							(13,170)
Profit from operations							297,891
Finance costs							(26,682)
Share of profit of a jointly controlled entity							7,916
Profit before taxation							279,125
Taxation							(49,550)
Profit before minority interests							229,575
Minority interests							(1,433)
Profit attributable to shareholders							228,142

4. SEGMENT INFORMATION – continued

Business segments – continued

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

2002 – continued

	Bulk Drugs					
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	791,873	894,081	723,582	483,549	26,833	2,919,918
Interest in a jointly controlled entity						20,809
Unallocated corporate assets						8,070
Consolidated total assets						2,948,797
LIABILITIES						
Segment liabilities	133,980	129,478	94,853	132,553	44	490,908
Unallocated corporate liabilities						654,943
Consolidated total liabilities						1,145,851

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Corporate**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION							
Capital expenditure	82,363	187,555	28,216	5,120	9,014	16	312,284
Depreciation and amortisation	48,088	35,907	28,493	6,812	22	345	119,667
Allowance for doubtful debts	–	–	14,276	–	–	–	14,276

4. SEGMENT INFORMATION – continued

Business segments – continued

2001

	Bulk Drugs				
	Penicillin series *HK$'000*	**Cephalosporin series** *HK$'000*	**Vitamin C series** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER					
Sales of goods	510,405	363,912	286,734	7,193	1,168,244
SEGMENT RESULT	108,855	103,883	822	(7,455)	206,105
Unallocated corporate expenses					(15,305)
Profit from operations					190,800
Finance costs					(27,102)
Impairment loss recognised in respect 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:

	Bulk Drugs				
	Penicillin series *HK$'000*	**Cephalosporin series** *HK$'000*	**Vitamin C series** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
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

4. SEGMENT INFORMATION – continued

Business segments – continued

2001 – continued

	Bulk Drugs					
	Penicillin series	Cephalosporin series	Vitamin C series	Others	Corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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 in respect of property, plant and equipment	–	–	3,543	–	–	3,543
Impairment loss recognised in respect of goodwill of an associate	–	–	–	–	–	2,032
Allowance for doubtful debts	3,133	2,167	4,300	–	–	9,600

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	
	2002	2001
	HK$'000	*HK$'000*
The PRC	**1,247,647**	868,203
Asia other than the PRC	**130,108**	157,375
Others	**247,375**	142,666
	1,625,130	1,168,244

Contribution to profit by geographical market has not been presented as the contributions to profit from each market is substantially in 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 PRC.

5. PROFIT FROM OPERATIONS

	2002	2001
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration	**121,874**	87,109
Retirement benefit scheme contributions	**18,101**	13,740
	139,975	100,849
Amortisation of intangible assets included in administrative expenses	**14,303**	15,255
Amortisation of goodwill included in administrative expenses	**1,546**	–
Auditors' remuneration	**1,200**	1,100
Depreciation and amortisation	**103,818**	88,715
Loss on disposal of property, plant and equipment	**7,587**	3,596
Research and development expenses	**2,290**	267
and after crediting:		
Bank interest income	**1,737**	1,238
Interest income from loan receivables	**504**	900

6. FINANCE COSTS

	2002	2001
	HK$'000	*HK$'000*
Borrowing cost	**–**	2,475
Interest paid on bank loans wholly repayable within five years	**24,384**	24,627
Interest paid to connected parties *(note 37 (I))*	**3,158**	1,288
Total recognised finance costs	**27,542**	28,390
Less: interest capitalised in construction in progress	**(860)**	(1,288)
	26,682	27,102

7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2002	2001
	HK$'000	*HK$'000*
DIRECTORS		
Directors' fees:		
Executive	**180**	160
Independent non-executive	**140**	120
	320	280
Other emoluments of executive directors:		
Salaries and other benefits	**4,277**	3,255
	4,597	3,535

The directors' remuneration were within the following bands:

	2002	2001
	Number of directors	Number of directors
Nil to HK$1,000,000	**9**	11
HK$1,000,001 to HK$2,000,000	**2**	–

EMPLOYEES

Of the six (2001: five) highest paid individuals in the Group, four (2001: two) were directors of the Company whose emoluments are set out above. The aggregate emoluments of the remaining two (2001: three) highest paid individuals are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**982**	2,038

The emoluments of each of these employees were below HK$1,000,000 for each of the two years ended December 31, 2002.

During the year, no emoluments were paid by the Group to the six 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.

8. TAXATION

	2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
PRC income tax		
– current year	**48,276**	28,529
– underprovision in prior years	**296**	–
Share of taxation of a jointly controlled entity	**978**	786
	49,550	29,315

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 form their first profit-making year, followed by a 50% reduction for the next three years. The taxation charge for the year represents provision for taxation which 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 28.

9. DIVIDEND

A final dividend of HK6.0 cents (2001: HK3.6 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

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

	2002	2001
Profit attributable to shareholders	**HK$228,142,000**	HK$140,006,000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,373,033,290**	1,240,447,279
Effect of dilutive potential ordinary shares in respect of share options	**22,612,855**	20,934,321
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,395,646,145**	1,261,381,600

11. PROPERTY, PLANT AND EQUIPMENT

	Land use rights in the PRC	Buildings in the PRC	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
COST							
At January 1, 2002	25,596	188,415	1,040,220	1,553	14,435	235,598	1,505,817
Additions	6,695	617	22,245	112	5,837	267,509	303,015
Acquisition of a subsidiary	63,737	78,526	48,102	–	–	–	190,365
Transfers	–	70,558	250,650	–	–	(321,208)	–
Disposals	–	–	(45,683)	–	(9,727)	–	(55,410)
At December 31, 2002	96,028	338,116	1,315,534	1,665	10,545	181,899	1,943,787
DEPRECIATION AND AMORTISATION							
At January 1, 2002	2,577	19,965	302,000	759	8,192	–	333,493
Provided for the year	2,460	13,977	84,881	302	2,198	–	103,818
Eliminated on disposals	–	–	(34,004)	–	(4,929)	–	(38,933)
At December 31, 2002	5,037	33,942	352,877	1,061	5,461	–	398,378
NET BOOK VALUE							
At December 31, 2002	90,991	304,174	962,657	604	5,084	181,899	1,545,409
At December 31, 2001	23,019	168,450	738,220	794	6,243	235,598	1,172,324

Included in construction in progress was interest cost capitalised amounting to HK$860,000 (2001: HK$1,288,000).

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

11. PROPERTY, PLANT AND EQUIPMENT – continued

	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At January 1, 2002	705	1,005	1,710
Additions	17	–	17
At December 31, 2002	722	1,005	1,727
DEPRECIATION AND AMORTISATION			
At January 1, 2002	265	251	516
Provided for the year	144	202	346
At December 31, 2002	409	453	862
NET BOOK VALUE			
At December 31, 2002	313	552	865
At December 31, 2001	440	754	1,194

12. INVESTMENTS IN SUBSIDIARIES

	2002	2001
	HK$'000	*HK$'000*
Unlisted investment, at cost	**763,445**	484,225

Particulars of the Company's subsidiaries as at December 31, 2002 are set out in note 38.

13. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date, and are therefore, shown in the balance sheet as non-current.

14. INTANGIBLE ASSETS

	Technical know-how *HK$'000*	Development costs *HK$'000*	Utility rights *HK$'000*	Total *HK$'000*
COST				
At January 1, 2002	50,267	42,088	51,795	144,150
Additions	3,910	962	4,397	9,269
At December 31, 2002	54,177	43,050	56,192	153,419
AMORTISATION				
At January 1, 2002	30,465	12,803	12,358	55,626
Provided for the year	5,143	3,761	5,399	14,303
At December 31, 2002	35,608	16,564	17,757	69,929
NET BOOK VALUE				
At December 31, 2002	18,569	26,486	38,435	83,490
At December 31, 2001	19,802	29,285	39,437	88,524

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

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

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

15. GOODWILL

THE GROUP

	HK$'000
COST	
Arising on acquisition of a subsidiary during the year and at December 31, 2002 (Note 29)	61,842
AMORTISATION	
Provided for the year and at December 31, 2002	1,546
NET BOOK VALUE	
At December 31, 2002	60,296
At December 31, 2001	–