

NOTES TO THE ACCOUNTS

(PREPARED UNDER *HONG KONG GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES*)

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(A) BASIS OF PREPARATION

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, property, plant and equipment are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

(B) CONSOLIDATION

The consolidated accounts include the accounts of Shandong Xinhua Pharmaceutical Company Limited (the "Company") and its subsidiaries (the "Group") made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital. All significant intercompany transactions and balances within the

Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of the subsidiaries.

In the Company's balance sheet the investments in the subsidiaries are stated at cost less provision for impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(C) PROPERTY, PLANT AND EQUIPMENT

- (i) Land use rights are stated at revalued amount less subsequent amortisation and accumulated impairment losses and are amortised over the land use rights period on a straight- line basis. Where an indication of impairment exists, the carrying amount is assessed and written off immediately to its recoverable amount.
- (ii) Fixed assets are stated at revalued amount less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their valuation amount less accumulated impairment losses over their estimated useful lives on a straight- line basis. The estimated useful lives of these fixed assets are as follows:

Buildings	15 years
Plant, machinery and equipment	10 years
Motor vehicles	10 years

- (iii) Improvements are capitalised and depreciated over their expected useful lives to the Group.
- (iv) At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.
- (v) The gain or loss on disposal of a fixed asset is the difference between the net sale

proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(D) CONSTRUCTION - IN - PROGRESS

Construction- in- progress is stated at cost. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

(E) OPERATING LEASE

Leases where substantially all the risk and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight- line basis over the lease periods.

(F) INVESTMENTS

Investments held for long- term are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write- downs or write- offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(G) INVENTORIES

Inventories comprise stocks and work-in-progress and, other than consumables, inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Consumables are stated at cost

less provision for obsolescence.

(H) TRADE RECEIVABLES

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

(I) DEFERRED TAXATION

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(J) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

Foreign currency translation differences relating to fund borrowed for the acquisition and construction of fixed assets are capitalised to the extent that they are regarded as an adjustment to interest cost. All other exchange differences are dealt with in the profit and loss account.

(K) REVENUE RECOGNITION

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and the title has passed.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Operating lease rental income is recognised on a straight- line basis.

(L) RETIREMENT BENEFITS

The Group participates in a local municipal government retirement scheme whereby it is required to pay annual contributions at the rate of 25% (2000: 25%) of the total salary, bonuses and allowances of the Group's staff paid for the year. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired staff of the Group. Contributions to this retirement scheme are charged to the profit and loss account as and when incurred.

(M) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except where it is expected that the product under development will be profitable and will be produced and its technical feasibility has been demonstrated. Such development costs are recognised as an asset and amortised on a straight- line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised.

(N) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(O) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and bank balances, bank deposits with less than three months to maturity, net of short- term bank loans with less than three months to maturity.

(P) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a results of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(Q) SEGMENT REPORTING

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

(R) DIVIDENDS

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 19, this change has resulted in an increase in opening retained earnings at 1st January 2001 by RMB34,185,000 (1st January 2000: RMB17,093,000) which is the reversal of the provision for 2000 (1999) proposed final dividend previously recorded as a liability as at 31st December 2000 (31st December 1999) although not declared until after the balance sheet date

2 TURNOVER, REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the development, production and sales of pharmaceutical products including bulk pharmaceuticals, preparations (e.g. tablets and injections), chemicals and other products. Revenues recognised during the year are as follows:

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Sales of goods	1,099,289	1,044,073
Other revenues		
Interest income	14,668	12,586
Rental income	2,375	780
Sales of scrap materials	421	667
Dividend income	3,052	604
Technical service income	1,596	368

	22,112	15,005
Total revenues	1,121,401	1,059,078

Analysis of the Group's segment information for the year by business segment and geographical location of customers are set out as follows:-

(i) By business segment

	2001			2000		
	Pharmaceutical business <i>RMB'000</i>	Other operations <i>RMB'000</i>	Group <i>RMB'000</i>	Pharmaceutical business <i>RMB'000</i>	Other operations <i>RMB'000</i>	Group <i>RMB'000</i>
Segment revenues	1,118,349	3,052	1,121,401	1,058,474	604	1,059,078
Segment results	113,111	3,052	116,163	104,399	604	105,003
Segment assets	1,781,807	55,441	1,837,248	1,315,415	38,664	1,354,079
Segment liabilities	(452,432)	-	(452,432)	(387,341)	-	(387,341)
Capital expenditure	95,287	-	95,287	65,204	-	65,204
Depreciation	69,039	-	69,039	69,013	-	69,013

(ii) By geographical location of customers

	Segment revenues		Segment results	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
PRC (including Hong Kong)	773,155	712,820	249,826	228,845
Europe	148,347	158,357	39,316	36,808
Americas	138,495	129,401	33,637	38,496
Others	61,404	58,500	23,422	17,537
	1,121,401	1,059,078	346,201	321,686
Unallocated costs			(230,038)	(216,683)
Operating profit			116,163	105,003

All the Group's assets are located in the People's Republic of China.

3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Crediting		
Reversal of write- down of slow moving and obsolete inventories	-	
	656	
Gain on disposal of fixed assets	380	-
Charging		
Staff costs (excluding directors' and supervisors' emoluments)	100,981	95,622
Provision for bad and doubtful debts	10,180	8,074
Depreciation of owned fixed assets	69,039	69,013
Retirement benefit costs	18,860	16,909
Auditors' remuneration	1,095	1,095
Research and development costs	12,355	12,830
Loss on disposal of fixed assets	-	904
Net exchange loss	551	703
Repairs and maintenance expenses	37,400	26,333
Advertising and promotion expenses	70,946	61,868
Provision for slow moving and obsolete inventories	37	-
Operating leases on land and buildings	658	246

4 FINANCE COSTS

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Interest on bank loans repayable within five years	18,066	21,599

Interest on other loans		
repayable within five years	-	328
Total borrowing costs incurred	18,066	21,927
Less: amount capitalised		
in construction- in- progress	-	(328)
	18,066	21,599

5 TAXATION

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
The amount of taxation charged to the consolidated profit and loss account represents:		
PRC enterprise income tax		
- current (note (a))	35,875	34,126
- tax refunded (note (a))	(19,568)	(18,614)
	16,307	15,512

- (a) The Group is subject to PRC enterprise income tax at the rate of 33% on its taxable income for the years ended 31st December 2001 and 2000.

Pursuant to approval documents from the People's Government of the Shandong Province and the Shandong Province Zibo Municipal Finance Bureau, the Company is entitled to a preferential enterprise income tax refund treatment from the Shandong Province Zibo Municipal Finance Bureau. The refund equals to 18% of the taxable income in respect of the enterprise income tax paid to the taxation bureau. The tax refunded represents financial subsidies received during the year. It is the directors' opinion that these refunds are received without recourse.

According to the State Council's notice numbered Guo Fa [2000] 2 in respect of the rectification of "Levy First Refund Later" local taxation policy and Caishui [2000] no. 99 notice from the Finance Bureau and the National Tax Bureau on the implementation of the rectification of "Levy First Refund Later" local taxation policy, the Company, as a company listed on The Stock Exchange of Hong Kong Limited, can enjoy such preferential income tax refund treatment up to 31st December 2001.

- (b) Pursuant to approval documents from Zibo Local Tax Bureau's notice numbered KaiZi [2002] 5, the Company is qualified as a high- technology enterprise and subject to PRC enterprise income tax rate of 15% for the year ending 31st December 2002. This treatment will be subject to annual reviews by Zibo Local Tax Bureau in future years after 2002.
- (c) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax for the years ended 31st December 2000 and 2001.
- (d) Deferred taxation

	Group and Company	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
At 1st January		
and 31st December	1,809	1,809

The amount of deferred
taxation represents:

	2001		2000	
	Full	Provision	Full	Provision
	potential	made	potential	made
	liabilities		liabilities	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Timing differences on				
HKGAAP adjustments	1,467	1,467	1,855	1,855
Other timing differences	342	342	(46)	(46)
	1,809	1,809	1,809	1,809

There is no material unprovided deferred taxation.

6 PROFITS ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the

extent of RMB81,340,000 (2000: RMB67,340,000).

7 DIVIDENDS

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Final, proposed of RMB0.08 (2000:RMB0.08) per share on 307,312,830 (2000:277,312,830) A shares and 150,000,000 (2000: 150,000,000) H shares (note (b))	36,585	34,185

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 were RMB17,093,000 and RMB34,185,000 respectively. Under the Group's new accounting policy as described in note 1(r), these have been written back against opening reserves as at 1st January 2000 and 2001 in Note 19 and are now charged in the year in which they were paid.
- (b) At a meeting held on 22nd March 2002, the directors declared a final dividend of RMB0.08 per share on 307,312,830 A Shares and 150,000,000 H Shares. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

8 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB81,746,000 (2000: RMB67,826,000).

The earnings per share is based on the weighted average of 437,093,652 (2000: 427,312,830) shares in issue during the year.

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

- (a) The aggregate amounts of emoluments payable to the directors and supervisors of the Company during the year are as follows:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Fees	-	-
Other emoluments		
- Basic salaries and allowances	700	711
- Bonuses	1,500	889
- Retirement benefits	150	155
	2,350	1,755

No emolument was paid to non- executive directors for the years ended 31st December 2000 and 2001.

- (b) The number of directors and supervisors whose emoluments fell within the following bands:

	Executive directors		Non- executive directors		Supervisors	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
Nil to						
RMB1,000,000	9	10	3	3	5	5

No directors or supervisors waived their emoluments in respect of the years ended 31st December 2000 and 2001.

- (c) The five individuals whose emoluments were the highest in the Group for the years ended 31st December 2000 and 2001 are executive directors of the Company whose emoluments are reflected in the analysis presented above.

10 FIXED ASSETS

Group

	Land use Rights	Buildings	Plant, Machinery, and equipment	Motor vehicles	Total
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	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Valuation					
At 1st January 2001	68,823	176,904	478,264	14,220	738,211
Transferred from					
construction- in- progress	-	4,838	29,011	-	33,849
Additions	8,152	3,007	17,614	5,277	34,050
Disposals	-	-	(9,345)	(1,006)	(10,351)
At 31st December 2001	76,975	184,749	515,544	18,491	795,759
Accumulated depreciation					
At 1st January 2001	6,166	67,137	153,558	5,109	231,970
Charge for the year	1,392	15,646	50,356	1,645	69,039
Disposals	-	-	(8,910)	(993)	(9,903)
At 31st December 2001	7,558	82,783	195,004	5,761	291,106
Net book value					
At 31st December 2001					
(note 10(e))	69,417	101,966	320,540	12,730	504,653
At 31st December 2000	62,657	109,767	324,706	9,111	506,241

Company

	Land use Rights	Buildings	Plant, Machinery, and equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Valuation					
At 1st January 2001	68,823	176,904	478,144	14,220	738,091
Transferred from					
construction- in- progress	-	4,838	29,011	-	33,849
Additions	8,152	3,007	17,237	5,277	33,673

Disposals	-	-	(9,345)	(1,006)	(10,351)
At 31st December 2001	76,975	184,749	515,047	18,491	795,262
Accumulated depreciation					
At 1st January 2001	6,166	67,137	153,536	5,109	231,948
Charge for the year	1,392	15,646	50,295	1,645	68,978
Disposals	-	-	(8,910)	(993)	(9,903)
At 31st December 2001	7,558	82,783	194,921	5,761	291,023
Net book value					
At 31st December 2001 (note 10(e))	69,417	101,966	320,126	12,730	504,239
At 31st December 2000	62,657	109,767	324,608	9,111	506,143

- (a) All buildings of the Group and the Company are located in the PRC. Land use rights of the Group and the Company with net book value of RMB61,265,000 were granted by the State Land Administration Bureau of Zibo City for a period of 50 years from 8th March 1996.

The remaining land use right of the Group and the Company with net book value of RMB8,152,000 was granted by the State Land Administration Bureau of Zibo City for a period of 29 years to 27th December 2030.

- (b) In the preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company's fixed assets were firstly revalued as at 31st December 1995 by Shandong Certified Public Accountants, a firm of valuers registered in the PRC on a depreciated replacement cost basis as part of its restructuring. The revaluation surplus was RMB6,420,000. Another separate revaluation was carried out for the Company's fixed assets as at 30th September 1996, by Chesterton Petty Limited, an independent valuer, on an open market value basis. This has resulted in a further revaluation surplus of RMB22,625,000 to the Company. The adoption of the above two revaluations in the accounts has resulted in an additional depreciation charge of RMB2,126,000 (2000: RMB3,029,000) in respect of the year ended 31st December 2001.

- (c) Had the fixed assets of the Group and the Company been carried at cost less accumulated depreciation, the carrying value of such assets in the accounts would have been approximately:

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Land use rights	69,076	62,316	69,076	62,316
Buildings	95,209	101,156	95,209	101,156
Plant, machinery and equipment	293,649	323,985	293,235	323,887
Motor vehicles	12,244	8,625	12,244	8,625
	470,178	496,082	469,764	495,984

- (d) The above revaluations do not constitute a timing difference and therefore have no deferred taxation effect.
- (e) At 31st December 2001, all fixed assets of the Company and the Group were revalued by the directors on a depreciated replacement cost basis. Since there are no material differences between the revaluated amount and the net book value at 31st December 2001, the directors are of the opinion that the net book value of fixed assets at 31st December 2001 fairly reflected their recoverable amount at that time.

11 CONSTRUCTION- IN- PROGRESS

	Group and Company	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
At 1st January	63,775	44,845
Additions	61,237	35,474
Transferred to fixed assets	(33,849)	(16,544)
At 31st December	91,163	63,775

Construction- in- progress comprises expenditures incurred on buildings, plants and machinery not yet commissioned at 31st December 2001. During the year, no interest was capitalised in respect of loans borrowed for financing construction- in- progress (2000:

RMB328,000).

12 INVESTMENTS

	Group and Company	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	55,277	38,500

13 SUBSIDIARY

	Company	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	880	880

The details of the subsidiaries at 31st December 2001 are as follows:

Name	Country of incorporation	Principal activities and place of operation	Particulars of registered capital	Effective interest held
Zibo Xinhua Drug Store Company Limited	People's Republic of China (the "PRC")	Retail sales of medicine and medical products in the PRC	RMB1,000,000	88%
Dezhou Xinhua Tai Kang Drug Store Company Limited	People's Republic of China (the "PRC")	Retail sales of medicine and medical products in the PRC	RMB600,000	*52.8%

* Shares held indirectly by the Company

14 INVENTORIES

Group		Company	
2001	2000	2001	2000
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Raw materials	22,480	18,423	22,480	18,423
Work- in- progress	69,378	57,098	69,378	57,098
Finished goods	96,246	82,078	93,859	80,332
Consumables	7,445	6,380	7,445	6,380
	195,549	163,979	193,162	162,233

At 31st December 2001, the amount of inventories of the Group and the Company that are carried at net realisable value amounted to RMB9,741,000 (2000: RMB14,324,000).

15 TRADE AND BILLS RECEIVABLES

At 31st December 2001, the ageing analysis of the trade and bills receivables were as follows:

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	242,177	204,153	242,177	204,153
One to two years	11,757	8,088	11,757	8,088
Two to three years	479	770	479	770
	254,413	213,011	254,413	213,011

The Group's and the Company's turnover from export sales is on letter of credit or documents against payment. The remaining balances of turnover are on open account terms which are partially covered by customers' stand- by letter of credit or bank guarantees.

16 AMOUNT DUE FROM HOLDING COMPANY

The balance is unsecured, interest- free and has no fixed terms of repayment.

17 TRADE AND BILLS PAYABLES

At 31st December 2001, the ageing analysis of the trade and bills payables were as follows:

Group		Company	
2001	2000	2001	2000

	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	79,993	92,690	77,758	90,726
One to two years	2,430	2,165	2,430	2,165
Two to three years	2,575	1,124	2,575	1,124
Over three years	736	2,661	736	2,661
	85,734	98,640	83,499	96,676

18 SHARE CAPITAL

	Group and Company	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Registered		
307,312,830		
(2000: 277,312,830)		
A Shares of RMB1.00 each	307,313	277,313
150,000,000		
(2000: 150,000,000)		
H Shares of RMB1.00 each	150,000	150,000
	457,313	427,313
Issued and fully paid		
307,312,830		
(2000: 277,312,830)		
A Shares of RMB1.00 each divided into:		
State shares (note (a))	214,440	217,440
Legal person shares	16,720	16,720
Individual shares (note (a))	76,153	43,153
	307,313	277,313
150,000,000		
(2000: 150,000,000)		
H Shares of RMB1.00 each	150,000	150,000
	457,313	427,313

Note:

- (a) On 3rd September 2001, the Company issued 30,000,000 A Shares at an issue price of RMB13.00 by way of public offer, which were listed on the Shenzhen Stock Exchange on 19th September 2001.

In addition, pursuant to the approval document issued by Ministry of Finance numbered Caiqibianhan [2001]78, 3,000,000 state owned A Shares were offered for sale at an offer price of RMB13.00 by way of public offer, which were listed on the Shenzhen Stock Exchange on the 19th September 2001.

- (b) Pursuant to the Articles of Association of the Company, except for the denominated currency in which dividends are payable, the A Shares and H Shares issued by the Company rank pari passu with each other in all aspects.

19 RESERVES

Group

	Capital reserve (note (b)) RMB'000	Share premium account (note (b)) RMB'000	Reserve funds (note (c)) RMB'000	Asset revaluation reserve RMB'000	Retained earnings (note (d)) RMB'000	Total RMB'000
At 1st January 2000, as previously reported	78,642	126,101	96,182	29,045	141,629	471,599
Effect of adopting SSAP 9 (Revised) (Note 1(r))	-	-	-	-	17,093	17,093
At 1st January 2000, as restated	78,642	126,101	96,182	29,045	158,722	488,692
Profit for the year	-	-	-	-	67,826	67,826
1999 Final dividend paid (Note 7)	-	-	-	-	(17,093)	(17,093)
Transfer to reserve funds	-	-	17,280	-	(17,280)	-
At 31st December 2000	78,642	126,101	113,462	29,045	192,175	539,425

Representing:

Reserves at

31st December 2000	78,642	126,101	113,462	29,045	157,990	505,240
2000 Final dividend proposed	-	-	-	-	34,185	34,185
At 31st December 2000	78,642	126,101	113,462	29,045	192,175	539,425
At 1st January 2001, as previously reported	78,642	126,101	113,462	29,045	157,990	505,240
Effect of adopting SSAP 9 (Revised) (Note 1(r))	-	-	-	-	34,185	34,185
At 1st January 2001, as restated	78,642	126,101	113,462	29,045	192,175	539,425
Issue of additional A shares	-	340,517	-	-	-	340,517
Profit for the year	-	-	-	-	81,746	81,746
2000 Final dividend paid (Note 7)	-	-	-	-	(34,185)	(34,185)
Transfer to reserve funds	-	-	20,390	-	(20,390)	-
At 31st December 2001	78,642	466,618	133,852	29,045	219,346	927,503

Representing:

Reserves at

31st December 2001	78,642	466,618	133,852	29,045	182,761	890,918
2001 Final dividend proposed	-	-	-	-	36,585	36,585
At 31st December 2001	78,642	466,618	133,852	29,045	219,346	927,503

Company

Capital reserve (note (b)) RMB'000	Share premium account (note (b)) RMB'000	Reserve funds (note (c)) RMB'000	Asset revaluation reserve RMB'000	Retained earnings (note (d)) RMB'000	Total RMB'000
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At 1st January 2000, as

previously reported	78,642	126,101	96,182	29,045	141,412	471,382
Effect of adopting SSAP						
9 (Revised)						
(Note 1(r))	-	-	-	-	17,093	17,093
At 1st January 2000, as						
restated	78,642	126,101	96,182	29,045	158,505	488,475
Profit for the year	-	-	-	-	67,340	67,340
1999 Final dividend						
paid (Note 7)	-	-	-	-	(17,093)	(17,093)
Transfer to reserve funds	-	-	17,280	-	(17,280)	-
At 31st December 2000	78,642	126,101	113,462	29,045	191,472	538,722
Representing:						
Reserves at						
31st December 2000	78,642	126,101	113,462	29,045	157,287	504,537
2000 Final dividend						
proposed	-	-	-	-	34,185	34,185
At 31st December 2000	78,642	126,101	113,462	29,045	191,472	538,722
At 1st January 2001, as						
previously reported	78,642	126,101	113,462	29,045	157,287	504,537
Effect of adopting SSAP						
9 (Revised)						
(Note 1(r))	-	-	-	-	34,185	34,185
At 1st January 2001, as						
restated	78,642	126,101	113,462	29,045	191,472	538,722
Issue of additional A shares	-	340,517	-	-	-	340,517
Profit for the year	-	-	-	-	81,340	81,340
2000 Final dividend						
paid (Note 7)	-	-	-	-	(34,185)	(34,185)
Transfer to reserve funds	-	-	20,224	-	(20,224)	-
As at 31st December 2001	78,642	466,618	133,686	29,045	218,403	926,394
Representing:						

Reserves at						
31st December 2001	78,642	466,618	133,686	29,045	181,818	889,809
2001 Final dividend proposed	-	-	-	-	36,585	36,585
At 31st December 2001	78,642	466,618	133,686	29,045	218,403	926,394

(a) Pursuant to the relevant PRC regulations and the Company's Articles of Association (the "Articles"), profit after taxation shall be appropriated in the following order:

- (1) make up accumulated losses;
- (2) transfer 10% of the profit after tax to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the registered capital, such transfers need not be made;
- (3) transfer 5% to 10% of the profit after tax to the statutory public welfare reserve;
- (4) transfer to the discretionary surplus reserve an amount approved by the shareholders in general meetings; and
- (5) distribute dividends to shareholders.

The amount transferred to the statutory surplus reserve and statutory public welfare reserve shall be based on the profit after taxation in the statutory accounts prepared in accordance with the PRC accounting standards.

(B) CAPITAL RESERVE AND SHARE PREMIUM ACCOUNT

Capital reserve comprises mainly surplus between the appraised value of assets and value of shares issued when the Company was converted from a state-owned enterprise to a joint stock limited company. Share premium account arose from issues of shares net of issuing expenses. According to relevant PRC regulations, capital reserve and share premium account can only be used to increase share capital.

(C) RESERVE FUNDS

Group

	Statutory	Statutory	public	Discretionary

	surplus reserve (note (i)) RMB'000	welfare reserve (note (ii)) RMB'000	surplus reserve (note (iii)) RMB'000	Total RMB'000
At 1st January 2000	42,112	18,611	35,459	96,182
Transfer from profit and loss account	6,912	3,456	6,912	17,280
At 31st December 2000	49,024	22,067	42,371	113,462
At 1st January 2001	49,024	22,067	42,371	113,462
Transfer from profit and loss account	8,200	4,100	8,090	20,390
At 31st December 2001	57,224	26,167	50,461	133,852

Company

	Statutory surplus reserve (note (i)) RMB'000	Statutory public welfare reserve (note (ii)) RMB'000	Discretionary surplus reserve (note (iii)) RMB'000	Total RMB'000
At 1st January 2000	42,112	18,611	35,459	96,182
Transfer from profit and loss account	6,912	3,456	6,912	17,280
At 31st December 2000	49,024	22,067	42,371	113,462
At 1st January 2001	49,024	22,067	42,371	113,462
Transfer from profit and loss account	8,090	4,044	8,090	20,224
At 31st December 2001	57,114	26,111	50,461	133,686

Notes:

- (i) Statutory surplus reserve

The Group is required in each year to transfer 10% of the profit after taxation as reported under the PRC statutory accounts to the statutory surplus reserve until the balance reaches 50% of the registered share capital. This reserve can be used to make up any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Statutory public welfare reserve

The Group is required in each year to transfer 5% to 10% of the profit after taxation as reported under the PRC statutory accounts to the statutory public welfare reserve. This reserve is restricted to capital expenditure for employees' collective welfare facilities which are owned by the Company. Except in liquidation, the statutory public welfare reserve is not available for distribution to shareholders.

(iii) Discretionary surplus reserve

The discretionary surplus reserve can be set up by means of appropriation from the retained earnings or transfer from statutory public welfare reserve. Subject to approval by shareholders in general meetings, the reserve can be used to reduce any losses incurred and to increase share capital. Any transfers to the reserve also require the approval of shareholders in general meetings.

(D) PROFIT APPROPRIATION

According to the Articles, the net profit for the purposes of profit distribution is deemed to be the lesser of (a) the amount determined in accordance with the PRC accounting standards and financial regulations; and (b) the amount determined in accordance with International Accounting Standards or accounting standards of the place at which foreign shares of the Company are listed. The amount available for distribution at 31st December 2001 determined on this basis was approximately RMB218,403,000 (2000: RMB191,472,000).

20 BANK LOANS

At 31st December 2001, the Group's and the Company's bank loans were repayable as follows:-

Long term bank loan		Short term bank loan	
2001	2000	2001	2000

	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wholly repayable				
within one year	-	-	182,100	259,100
Wholly repayable within				
two to five years	150,000	-	-	-
	150,000	-	182,100	259,100

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(A) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Profit before taxation	98,097	83,404
Depreciation of fixed assets	69,039	69,013
Interest expenses	18,066	21,599
Interest income	(14,668)	(12,586)
Dividend income from investments	(3,052)	(604)
(Gain)/ loss on disposal of fixed assets	(380)	904
(Increase)/ decrease in inventories	(31,570)	15,539
(Increase)/ decrease in trade and bills receivables, other receivables, deposits and prepayments	(65,977)	8,601
(Decrease)/ increase in trade and bill payables, other payables and accrued charges	(6,235)	4,462
(Increase)/ decrease in amount due from holding company	(8,991)	10,957
Net cash inflow from operating activities	54,329	201,289

(B) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Share capital		Minority interests		Bank and other loans	
including premium					
2001	2000	2001	2000	2001	2000
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

At 1st January	553,414	553,414	215	149	259,100	339,376
Issue of additional						
A shares	370,517	-	-	-	-	-
Minority interests'						
share of profits	-	-	44	66	-	-
Advance from a minority						
shareholder	-	-	240	-	-	-
New bank loans	-	-	-	-	522,900	367,500
Repayment of bank and						
other loans	-	-	-	-	(449,900)	(447,776)
At 31st December	923,931	553,414	499	215	332,100	259,100

22 BANKING FACILITIES

At 31st December 2001, the Group's and the Company's bank loans totalling approximately RMB177,100,000 (2000: RMB250,100,000) and RMB150,000,000 (2000: nil) were guaranteed by a fellow subsidiary and a holding company respectively.

23 COMMITMENTS

(A) CAPITAL COMMITMENTS

(i) Commitments for construction- in- progress and fixed assets

At 31st December 2001, the Group had the following capital commitments principally related to the construction- in- progress and purchase of fixed assets in respect of buildings and production facilities which were not provided for in the accounts:

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for	9,700	9,150
Authorised by the directors		
but not contracted	185,500	127,700
	195,200	136,850

(ii) Other commitments

During the year, the Group had contracted for a project to set up a joint venture and the capital commitments related at 31st December 2001 is RMB3,181,000 (2000: Nil).

(b) Commitments under operating leases

As 31st December 2001, the group had future aggregate minimum lease payments under non- cancellable operating leases as follows:

	Land and buildings	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than one year	711	360
Later than one year and not later than five years	1,939	1,190
Later than five years	140	-
	2,790	1,550

24 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC"), holding company		
- Purchase of land use right in Zibo City, the PRC	7,914	-
Fellow subsidiaries:		
- Sale of finished goods and raw materials	18,196	13,942
- Purchase of raw materials	55,787	54,281
- Rental income	1,760	465
- Payment of labour and other services	12,156	12,156

(a) In the opinion of the directors, the transactions stated above were carried out on normal commercial terms in the ordinary course of business.

25 ULTIMATE HOLDING COMPANY

The directors of the Company regard Xinhua Lukang Pharmaceutical Group Corporation, a State- owned limited liability company established in the PRC, as being the ultimate holding company.

26 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd March 2002.