Notes to the Consolidated Financial Statements

1. GENERAL

The Company is incorporated in Cayman Islands as an exempted company with limited liabilities. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is disclosed in the Corporate Information section to the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the "Group").

The Group are principally engaged in research and development, selling and manufacturing pharmaceutical products.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005.

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. On 1 January 2005, the Group eliminated the carrying amount of the related accumulated amortisation of HK$7,780,000 with a corresponding decrease in the cost of goodwill (see Note 20). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Business Combinations (Continued)

Goodwill (Continued)

In the current year, the Group has also applied HKAS 21 *The effects of Changes in Foreign Exchange Rates* which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the year in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005, (of which negative goodwill of HK$86,000 previously presented as a deduction from assets). A corresponding adjustment to the Group's retained earnings of HK$86,000 has been made (see Note 2A for the financial impact).

Share-based Payment

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. In relation to share options granted by the Group after 7 November 2002, all of them were vested before 1 January 2005 and therefore no comparative figures have been restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "investment securities" amounted to HK$21,441,000 has been classified as "available-for-sale investments" on 1 January 2005 (see Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 HK$'000	2004 HK$'000
Decrease in discount on acquisition arising from additional interest in a subsidiary recognised to income	(316)	–
Non-amortisation of goodwill	4,368	–
Decrease in negative goodwill released to income	(36)	–
Recognition of share-based payments as expenses	(3,525)	–
Increase in profit for the year	491	–

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	Retrospective adjustments		As at 31 December 2004 (restated)	Prospective adjustments		As at 1 January 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		HKAS 1	HKAS 17		HKAS 39	HKFRS 3	
Balance sheet items							
Property, plant and equipment	215,519	–	(21,835)	193,684	–	–	193,684
Prepaid lease payments on land use rights	–	–	21,835	21,835	–	–	21,835
Investment securities	21,441	–	–	21,441	(21,441)	–	–
Available-for-sale investments	–	–	–	–	21,441	–	21,441
Negative goodwill	(86)	–	–	(86)	–	86	–
Total effects on assets and liabilities	236,874	–	–	236,874	–	86	236,960
Retained earnings	103,082	–	–	103,082	–	86	103,168
Minority interests	–	12,274	–	12,274	–	–	12,274
Total effects on equity	103,082	12,274	–	115,356	–	86	115,442
Minority interests	12,774	(12,274)	–	–	–	–	–

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As originally stated	Adjustments	As restated
	HK$'000	HK$'000	HK$'000
		HKAS 1	
Minority interests	–	1,803	1,803
Total effects on equity	–	1,803	1,803

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Goodwill (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(c) Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

Any excess of the Group's interest in the net fair value of the acquiree's identificable assets, liabilities and contingent liabilities over the cost of the acquisition of a subsidiary, after reassessment, is recognised immediately in the consolidated income statement. As explained in Note 2 above, all negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

(d) Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against the profit in the year in which the expenditure is incurred.

Useful lives of acquired intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost less any subsequent accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets are tested for impairment annually either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and, where applicable, adjustments are made on a prospective basis.

As intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset, is recognised in the income statement in the year the intangible asset is derecognised.

Patents

Cost incurred on the acquisition of patents are capitalised in the consolidated balance sheet and are amortised by equal annual instalments over the estimated useful life of fifteen years. Patents are not revalued as there is no active market for these assets.

Research and development costs

Cost on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development cost 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 useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development cost is charged to profit or loss in the year in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets (Continued)

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Construction in progress represents buildings and machinery under construction or installation and is stated at cost, less any identified impairment losses. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment when they are ready for use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

No depreciation or amortisation is provided on construction in progress until the asset is completed and put into use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. The value of land use rights is amortised on a straight-line basis over the period of the land use rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter.

(h) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(h) **Financial instruments** (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated identified losses.

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, the cumulative gain or loss derived from the investment recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the year in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the income statement in the year in which it arises. Impairment losses recognised shall not be reversed in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payable, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

(i) Inventories

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

(j) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

(k) Impairment losses (other than goodwill (see the accounting policy in respect of goodwill above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Revenue recognition

Revenue from sales 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 customers and the title has passed.

Revenue from sales of technology is recognised when the Group's obligations to perform are completed in accordance with the applicable performance requirements and contractual terms.

Subcontract manufacturing income is recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Operating lease rental income is recognised on a straight-line basis over the period of the relevant lease terms.

(m) Equity settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(o) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange translation reserve.

(p) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other assets are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Leasing (Continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see accounting policies in respect of borrowing costs).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(q) Retirement benefit costs

Payments to state-managed retirement benefits scheme and the defined contribution schemes are charged as expense as they fall due.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an qualifying 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 consolidated income statement in the year in which they are incurred.

(s) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense/are reported separately as 'other operating income'.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the financial information is disclosed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Amortisation of patents and development costs

Patents and development costs are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group re-assesses the useful life of the patents and development costs and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceeds its recoverable amount, in accordance with the Group's accounting policy. The recoverable amounts have been determined based on fair value less costs to sell, which is based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill was HK$30,396,000. Details of impairment testing on goodwill are set out in note 20a.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's explosure to market risk for changes in interest rates relates primarily to the Group's interest bearing bank borrowings and obligations under finance leases.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's exposure to liquidity risk is minimal.

6. REVENUES AND OTHER OPERATING INCOME

The Group is principally engaged in research and development, selling and manufacturing of pharmaceutical products.

Revenue represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable, sales of technology and subcontract manufacturing income. Revenues recognised during the year are as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Revenue		
Sales of goods	446,219	336,725
Sales of technology	–	5,667
Subcontract manufacturing income	218	1,028
	446,437	343,420
Other operating income		
Interest income	871	586
Research and development income	206	–
Government subsidies income	1,952	5,042
Exchange gain	4,172	51
Deemed gain on acquisition of a subsidiary	152	–
Gain on disposal of property, plant and equipment	5,429	–
Gain on disposal of investment securities	–	7
Reversal of allowance for bad and doubtful debts	61	–
Discount on acquisition arising from additional interest in a subsidiary	1,578	–
Sundry income	49	–
	14,470	5,686
Total revenues	460,907	349,106

6. REVENUES AND OTHER OPERATING INCOME (Continued)

The Group's revenues, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales and manufacturing of pharmaceutical products. The Group's principal market is in the PRC.

Neither the business segments of the sales of technology, subcontract manufacturing businesses nor the geographical segment in other country are of a sufficient size to be reported separately.

7. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest expenses on:		
– bank borrowings and overdrafts	8,277	3,551
– obligation under finance lease	86	–
– discounted bills of exchange	2,495	1,336
Other incidental borrowing costs	284	301
Total borrowing costs incurred	11,142	5,188
Less: interest capitalised in construction in progress	–	(1,064)
Total borrowing costs charged to the consolidated income statement	11,142	4,124

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress was 4% per annum for the year ended 31 December 2004.

8. INCOME TAX EXPENSES

The amount of tax charged to the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000
Overseas income tax		
– current year charge	7,241	5,709
– (over) underprovision in prior years	(1,704)	19
	5,537	5,728

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived from both years.

The Hong Kong Profits Tax amounting in total to HK$6,031,000 of a subsidiary of the Company for the financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). During the year, the subsidiary lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of Tax Reserve Certificates was purchased.

The Group has received an advice from a tax expert that, the profits of that subsidiary for the financial years 2000 and 2001 were neither arisen in nor derived from Hong Kong. The directors of the Company believes that the subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax. Accordingly, no provision for profits tax is required.

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, certain subsidiaries operating in the PRC are entitled to exemption from income tax in the first two years from the first profit-making year, 50% reduction of income tax in the subsequent three years and thereafter, preferential treatments which are subject to the relevant law and regulation. One subsidiary was taxed at 7.5% (2004: 7.5%). Another subsidiary has incurred a loss and no income tax is payable for the year (2004: Nil). Other subsidiaries were either in loss-making position for the current and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the year and accordingly did not have any assessable income.

The subsidiaries operating in Macao are exempted from income tax in Macao.

No Australian income tax has been provided as the subsidiaries operating in Australia had no estimated assessable profits for the current and previous years.

8. INCOME TAX EXPENSES (Continued)

The tax charges for the year can be reconciled to the profit per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000
Profit before tax	26,480	37,893
Tax at applicable tax rate	4,766	6,821
Effect of tax exemption granted to Macau subsidiaries	(593)	(9,365)
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	(8,888)	976
Tax effect of income not subject to tax	(1,200)	(33)
Tax effect of expenses not deductible for tax purposes	5,948	2,286
Utilisation of previously unrecognised tax losses	–	(552)
Tax effect of unrecognised tax losses	7,208	5,576
(Over)underprovision in prior years	(1,704)	19
Tax charges for the year	5,537	5,728

Deferred tax assets are not recognised for tax loss carry forwards due to uncertainty of realisation of the related tax benefit through the future taxable profits. The Group has unrecognised tax losses of approximately HK$105,690,000 (2004: HK$66,186,000), of which approximately HK$30,617,000 (2004: HK$19,262,000) would expire within the coming five years up to year 2009 (2004: year 2008).

9. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000 (restated)
Profit for the year has been arrived at after charging:		
Allowance for bad and doubtful debts	–	1,131
Amortisation of intangible assets		
– development costs	1,255	501
– goodwill	–	4,317
– patents	104	275
Amortisation of prepaid lease payments on land use rights	537	355
Auditors' remuneration	1,410	1,410
Cost of inventories sold	150,776	102,046
Depreciation of property, plant and equipment	16,655	10,964
Impairment loss recognised in respect of goodwill	4,480	–
Impairment loss recognised in respect of intangible assets	1,550	–
Impairment losses recognised in respect of available-for-sale investments	12,961	–
Impairment loss recognised in respect of assets classified as held for sale	581	–
Loss on disposal of property, plant and equipment	240	20
Operating lease rental on land and buildings	4,247	2,755
Research and development costs	2,123	5,474
Staff costs (including directors' emoluments) *(note 12)*	36,797	40,210
Write down of inventories	5,953	559
Write-off of intangible assets	–	3,963

10. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim dividend, paid, of HK$1.0 cent per ordinary share (2004: HK0.5 cent per ordinary share, with options of 1 scrip share for every 75 shares)	15,417	7,496

The interim dividend paid approximately HK$525,000 have been satisfied by scrip shares of HK$0.01 each for the year ended 31 December 2004.

No final dividend was proposed during the years ended 31 December 2005 and 2004 since the balance sheet date.

11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to the equity holders of the Company of HK$21,649,000 (2004: HK$32,776,000).

The basic earnings per share is based on the weighted average number of 1,540,358,481 (2004: 1,480,993,084) ordinary shares in issue during the year.

No diluted earnings per share has been presented for the year ended 31 December 2005 as the exercise of the share options would result in a decrease in the earnings per share.

The diluted earnings per share for the year ended 31 December 2004 is based on 1,486,685,939 ordinary shares which are the weighted average number of 1,480,993,084 ordinary shares in issue during the year plus the weighted average number of 5,692,855 ordinary shares taking into account the effects of all dilutive potential ordinary shares in respect of the share options.

12. STAFF COSTS

	2005 HK$'000	2004 HK$'000
Wages and salaries (including directors' emoluments)	31,426	36,863
Retirement benefit costs	1,846	3,347
Share-based payments	3,525	–
	36,797	40,210

The subsidiaries in Hong Kong and Australia operate defined contribution schemes which are available to qualified employees. The assets of the schemes are held separately from those of the subsidiaries in independently administered funds. Monthly contributions made by the subsidiaries are calculated based on certain percentages of the applicable payroll costs or fixed sums as stipulated under the relevant requirements, as appropriate.

Pursuant to the regulations of the relevant authorities in the PRC, the subsidiaries of the Group in this country participate in respective government retirement benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes.

12. STAFF COSTS (Continued)

The retirement benefit costs represent gross contributions by the Group to the Schemes operated by the relevant authorities of the PRC and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). Contributions totalling HK$81,000 payable to the Retirement Schemes as at 31 December 2005 (2004: HK$75,000) are included in accrued charges and other payables. There were no forfeited contributions throughout the current and previous years.

Details of the Company's share options granted to the employees of the Group are set out in note 31.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 9 (2004: 12) directors were as follows:

For the year ended 31 December 2005

		Other emoluments				
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Bonuses HK$'000	Retirement benefits costs HK$'000	Share-based payment HK$'000	Total HK$'000
Executive directors:						
Tao Lung	–	720	79	12	758	1,569
Liu Jin, James	–	720	79	12	–	811
Huang Jian Ming	–	707	79	–	–	786
Jin Wei	–	720	79	–	253	1,052
Shen Song Qing	–	720	79	–	–	799
Xu Xiao Fan	–	720	79	–	758	1,557
Independent non-executive directors:						
Lee Kwong Yiu	240	–	–	–	76	316
Lui Tin Nang	240	–	–	–	76	316
Lo Wah Kei, Roy	240	–	–	–	76	316
	720	4,307	474	24	1,997	7,522

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2004

		Other emoluments			
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Bonuses HK$'000	Retirement benefits costs HK$'000	Total HK$'000
Executive directors:					
Tao Lung	–	721	–	12	733
Ko Sai Ying *	–	796	–	12	808
Au Yeung Ping Yuen, Terrence #	–	823	350	12	1,185
Liu Jin, James	–	755	–	12	767
Huang Jian Ming	–	540	–	–	540
Jin Wei	–	540	–	–	540
Liao Yong Guang #	–	668	–	11	679
Shen Song Qing	–	540	–	–	540
Xu Xiao Fan	–	141	–	–	141
Independent non-executive directors:					
Lee Kwong Yiu	134	–	–	–	134
Lui Tin Nang	132	–	–	–	132
Lo Wah Kei, Roy	33	–	–	–	33
	299	5,524	350	59	6,232

* *The director resigned on 21 October 2004.*

\# *The directors resigned on 22 November 2004.*

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are set out in the above. The emoluments of the remaining two (2004: two) highest paid individuals were as follows:

	2005 HK$'000	2004 HK$'000
Salaries, allowances and other benefits	2,402	4,031
Discretionary bonuses	–	350
Retirement benefits costs	20	10
Share-based payments	909	–
	3,331	4,391

The emoluments of the two (2004: two) highest paid employees fall in the following bands:

	Number of individuals	
	2005	2004
Emoluments bands		
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$3,000,000	2	–
HK$3,000,001 – HK$3,500,000	–	1
	2	2

During the year ended 31 December 2004, the two highest paid employees of the Group exercised 7,100,000 share options granted by the Company. The exercise price of the share options of the Company was HK$0.24 for 6,600,000 share options and HK$0.51 for 500,000 share options respectively per share. The consideration paid for each grant of share options was HK$1. The closing price of the shares of the Company on the date when the share options were exercised was HK$0.66 and HK$0.72 respectively. Other benefits of the highest paid employees included the difference between the aggregate amount of the market price of the Company's shares issued at the date of exercise of share options and the amounts paid by these highest paid employees in exercising these share options.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(c) During the year ended 31 December 2005, except for HK$501,000 (2004: nil) paid to Mr. Ko Sai Ying, a former director of the Group for loss of office which is included in staff costs, no emoluments have been paid by the Group to other directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

14. INTANGIBLE ASSETS

	Patents	Development costs	Total
	HK$'000	HK$'000	HK$'000
COST			
At 1 January 2004	3,977	1,786	5,763
Additions	277	4,900	5,177
Written off	(2,831)	(2,642)	(5,473)
At 31 December 2004	1,423	4,044	5,467
Exchange realignment	–	68	68
Additions	391	6,151	6,542
At 31 December 2005	**1,814**	**10,263**	**12,077**
ACCUMULATED AMORTISATION			
At 1 January 2004	1,395	164	1,559
Charge for the year	275	501	776
Eliminated on written off	(1,510)	–	(1,510)
At 31 December 2004	160	665	825
Exchange realignment	–	10	10
Charge for the year	104	1,255	1,359
Impairment loss recognised in the year	1,550	–	1,550
At 31 December 2005	**1,814**	**1,930**	**3,744**
CARRYING VALUES			
At 31 December 2005	**–**	**8,333**	**8,333**
At 31 December 2004	1,263	3,379	4,642

14. INTANGIBLE ASSETS (Continued)

(a) The directors have reviewed the carrying values of the Group's intangible assets as at 31 December 2005. The directors consider that it is unlikely that the patents have any future value in use and therefore the carrying amount of these patents in the amount of HK$1,550,000 (2004: Nil) were fully impaired.

(b) The patents in 2004 included an amount of HK$2,831,000 for the right in respect of knowledge knowhow and related manufacturing process of a pharmaceutical product acquired from Wuhan Institute of Virology, The Chinese Academy of Sciences ("Wuhan Institute of Virology"), an immediate holding company of the minority shareholder of a subsidiary, upon establishment of the subsidiary in 1996. This amount has been written off during the year ended 31 December 2004 as the knowledge knowhow and related manufacturing process are no longer in use.

(c) The patents as at 31 December 2005 included the amounts of HK$1,814,000 (2004: HK$1,423,000) paid for registration of certain patents in certain countries.

(d) Development costs mainly represented payments for development of the production technology of new products. Additions during the year included amounts of HK$6,151,000 (2004: HK$4,900,000) transferred from payments for pharmaceutical projects (note 23(b)). In which, HK$2,642,000 development cost related to the production technology of a pharmaceutical product has been written off in 2004.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Construction in progress HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and office equipment HK$'000	Total HK$'000
COST							
At 1 January 2004 as originally stated	34,609	52,725	1,891	69,150	13,446	4,934	176,755
Reclassification to prepaid lease payments on land use rights	(20,974)	–	–	–	–	–	(20,974)
At 1 January 2004 as restated	13,635	52,725	1,891	69,150	13,446	4,934	155,781
Acquired on acquisition of a subsidiary	–	–	–	–	671	16	687
Additions	10,032	45,548	1,115	1,238	6,434	1,849	66,216
Reclassification	11,111	(83,454)	146	72,203	–	(6)	–
Transfer to prepaid lease payments on land use rights	–	(1,593)	–	–	–	–	(1,593)
Disposals	–	–	(1,679)	(106)	–	(283)	(2,068)
At 31 December 2004	34,778	13,226	1,473	142,485	20,551	6,510	219,023
Exchange realignment	77	145	12	2,857	367	86	3,544
Reclassification	3,482	(11,384)	–	7,899	–	3	–
Transfer to prepaid lease payments on land use rights	–	(3,722)	–	–	–	–	(3,722)
Acquired on acquisition of a subsidiary	–	–	–	–	167	37	204
Additions	315	33,528	–	1,906	8,836	1,051	45,636
Reclassified as held for sale	(9,842)	–	–	(5,150)	–	(1,014)	(16,006)
Disposals	(9,857)	–	–	(511)	(1,174)	(17)	(11,559)
At 31 December 2005	18,953	31,793	1,485	149,486	28,747	6,656	237,120
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2004 as originally stated	797	–	1,842	9,398	3,033	1,778	16,848
Reclassification to prepaid lease payments on land use rights	(566)	–	–	–	–	–	(566)
At 1 January 2004 as restated	231	–	1,842	9,398	3,033	1,778	16,282
Charge for the year	1,023	–	280	5,765	2,876	1,020	10,964
Reclassification	–	–	–	83	–	(83)	–
Eliminated on disposals	–	–	(1,678)	(64)	–	(165)	(1,907)
At 31 December 2004	1,254	–	444	15,182	5,909	2,550	25,339
Exchange realignment	3	–	6	248	103	31	391
Charge for the year	905	–	332	9,775	4,352	1,291	16,655
Reclassified as held for sale	(1,232)	–	–	(2,948)	–	(664)	(4,844)
Eliminated on disposals	(247)	–	–	(126)	(854)	(6)	(1,233)
At 31 December 2005	683	–	782	22,131	9,510	3,202	36,308
NET BOOK VALUES							
At 31 December 2005	18,270	31,793	703	127,355	19,237	3,454	200,812
At 31 December 2004 (restated)	33,524	13,226	1,029	127,303	14,642	3,960	193,684

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of land and buildings shown above comprises:

	2005 HK$'000	2004 HK$'000 (restated)
In Hong Kong:		
Long lease	–	9,651
Outside Hong Kong:		
Freehold	–	9,127
Long lease	10,668	10,923
Medium-term lease	7,602	3,823
	18,270	33,524

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over lease term
Freehold land	Nil
Buildings	2.5%
Leasehold improvements	20% or over lease term, whichever is shorter
Plant and machinery	2.5 to 20%
Motor vehicles	20%
Furniture, fixtures and office equipment	10 to 27%

Notes:

(a) At 31 December 2005, the net book value of the Group's property, plant and equipment pledged as security for the banking facilities granted to the Group amounted to approximately HK$25,649,000 (2004: HK$25,856,000).

(b) At 31 December 2004, construction in progress included accumulated interest expenses capitalised of approximately HK$143,000.

(c) The net book value of motor vehicles of HK$19,237,000 includes an amount of HK$1,567,000 (2004: Nil) in respect of assets held under finance leases.

16. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2005 HK$'000	2004 HK$'000
The Group's prepaid lease payments on land use rights comprise:		
Leasehold land in the PRC:		
Long lease	12,919	12,866
Medium-term lease	19,091	8,969
	32,010	21,835
Analysed for reporting purposes as:		
Current asset	595	391
Non-current asset	31,415	21,444
	32,010	21,835

17. INTEREST IN AN ASSOCIATE

	2005 HK$'000	2004 HK$'000
Cost of investment in unlisted associate in the PRC	754	754
Share of post-acquisition losses and exchange realignment	(212)	(112)
Consideration of acquisition of a subsidiary *(Note 33a)*	(542)	–
	–	642

The Company held 40% equity interest in 成都出口監管倉庫有限公司 ("監管倉"), which is an equity joint venture company established in the PRC and engaged in provision of logistic services in the PRC. During the year ended 31 December 2005, the Group acquired an additional 45% equity interest in 監管倉 which then became a non-wholly subsidiary of the Group.

17. INTEREST IN AN ASSOCIATE (Continued)

The summarised financial information in respect of the Group's associate is set out below:

	31/10/2005 HK$'000	31/12/2004 HK$'000
Total assets	–	1,622
Total liabilities	–	(16)
Net assets	–	1,606
Group's share of net assets of associates	–	642
Revenue	184	96
Loss for the period / year	(282)	(281)
Group's share of result of an associate for the period/year	(113)	(112)

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprise:

	2005 HK$'000
Unlisted investments in guaranteed funds, at fair value	3,696
Unlisted investments in certificates of deposits, at fair value	1,494
Unlisted equity securities, at cost *(notes a and b)*	17,234
Less: Impairment loss recognised *(note b)*	(14,370)
	8,054

	2005 HK$'000
Analysed for reporting purposes as:	
Current assets	1,494
Non-current assets	6,560
	8,054

18. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes:

(a) The unlisted equity securities represent investments in private entities incorporated in the PRC and Malaysia.

(b) The above unlisted investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(c) At 31 December 2005, available-for-sale investments of approximately HK$5,190,000 were pledged to secure banking facilities granted to the Group.

19. INVESTMENT SECURITIES

Investment securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to available-for-sale investments under HKAS 39 (see note 2 for details).

	2004 HK$'000
Unlisted investments in guaranteed funds, at cost	4,056
Unlisted investments in certificates of deposits, at cost	1,560
Unlisted equity securities, at cost less impairment	15,825
	21,441

At 31 December 2004, investment securities of HK$5,616,000 were pledged to secure banking facilities granted to the Group.

20. GOODWILL

	HK$'000
COST	
At 1 January 2004	41,440
Arising on acquisition of a subsidiary	960
At 1 January 2005	42,400
Arising on acquisition of a subsidiary	256
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(7,780)
At 31 December 2005	34,876
ACCUMULATED AMORTISATION	
At 1 January 2004	3,463
Charge for the year	4,317
At 1 January 2005	7,780
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(7,780)
At 31 December 2005	–
IMPAIRMENT	
At 1 January 2004 and 1 January 2005	–
Impairment loss recognised for the year	4,480
At 31 December 2005	4,480
CARRYING VALUES	
At 31 December 2005	30,396
At 31 December 2004	34,620

Particulars regarding impairment testing on goodwill are disclosed in Note 20a.

Until 31 December 2004, goodwill had been amortised over its estimated useful life, ranging from nine to nineteen years.

20a. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill have been arising from the acquisition of subsidiaries, Vital Pharmaceuticals (Sichuan) Co. Ltd. ("Vital Sichuan"), Wuhan Weiao Pharmaceuticals Co., Ltd. ("Wuhan Weiao"), 四川維奧三江製葯有限公司 ("維奧三江") and 監管倉.

During the year ended 31 December 2005, the management of the Group prepared profit forecast and cash flow forecast (the "Forecast") in respect of the above subsidiaries. The cash flow forecast based on financial budgets approved by management covering a period of 3 years and a discount rate of 7%. Cash flow forecast during the budget period are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for the market development and the management believes that the budgeted gross margins are reasonable. The directors are of the opinion, based on the Forecast, that the recoverable amounts of the goodwill arising from acquisition of Wuhan Weiao, 維奧三江and 監管倉 do not exceed their carrying amount in the consolidated balance sheet, therefore full impairment losses of HK$4,480,000 are recognised. For the goodwill arising from acquisition from Vital Sichuan the recoverable amount exceeds their carrying amount in the consolidated balance sheet and no impairment loss is necessary.

21. NEGATIVE GOODWILL

	HK$'000
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	182
RELEASED TO INCOME	
At 1 January 2004	60
Released for the year	36
At 31 December 2004	96
At 31 December 2004	86
Derecognised upon the application of HKFRS 3	(86)
At 1 January 2005	–

As explained in Note 2, all negative goodwill arising on acquisitions prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

22. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials		
– in transit	8,854	6,767
– on hand	14,035	9,137
Work in progress	4,927	2,907
Finished goods	26,366	22,530
Packing materials	2,002	1,882
	56,184	43,223

At 31 December 2005, all the inventories were carried at cost.

23. TRADE AND OTHER RECEIVABLES

	2005 HK$'000	2004 HK$'000
Trade and bills receivables *(note a)*	180,778	123,382
Prepayments and deposits	3,518	5,860
Payments for pharmaceutical projects *(note b)*	20,615	7,152
Other receivables	7,971	8,868
	212,882	145,262
Less: Allowance for bad and doubtful debts	(1,572)	(1,639)
	211,310	143,623

23. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(a) The Group's sales are on open account terms. The Group normally grants to its customers credit periods ranging from 90 days to 180 days which are subject to periodic review by management.

At the balance sheet date, the aging analysis of the trade and bills receivables net of allowance for bad and doubtful debts was as follows:

	2005 HK$'000	2004 HK$'000
Within 30 days	**63,933**	35,911
31-60 days	**43,067**	39,112
61-90 days	**55,133**	32,625
Over 90 days	**17,073**	14,095
	179,206	121,743

(b) Amounts paid for the development of technology and pharmaceutical products are deferred prior to completion of the projects and included in payments for pharmaceutical projects. On completion, these amounts are transferred to development costs (note 14) in accordance with the Group's accounting policy as set out in note 3(e) above.

The fair value of the Group's trade and other receivables at 31 December 2005 was approximated to the corresponding carrying amount.

24. BANK BALANCES AND CASH

Bank balances and cash as at 31 December 2005 included deposits of approximately HK$2,007,000 (2004: HK$14,575,000) pledged as collateral for trust receipt loans and bank overdraft facilities.

Bank balances and cash of HK$5,520,000 (2004: HK$3,164,000) were pledged to secure banking facilities granted to the Group.

Included in bank balances and cash of the Group as at 31 December 2005 was a deposit of HK$606,000 (2004: HK$137,000) pledged as collateral for credit facility granted to a subsidiary by a bank.

The deposits carry fixed interest rate of ranging from 1.8% to 3.0% per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2005 was approximated to the corresponding carrying amount.

Bank balances and cash of the Group as at 31 December 2005 included amounts of approximately HK$33,162,000 (2004: HK$31,544,000) denominated in Renminbi ("RMB") not freely convertible to other currencies.

25. ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale represent the property, plant and equipment to be disposed in 2006. The net carrying amount of the relevant assets are expected to exceed the net proceeds of disposal and accordingly, impairment loss approximated HK$581,000 has been recognised. The recognition for impairments loss reflects the adjustment required to measure these assets at fair value.

26. TRADE AND OTHER PAYABLES

	2005 HK$'000	2004 HK$'000
Trade and bills payables	28,392	32,711
Accrued charges and other payables	37,527	25,566
	65,919	58,277

At the balance sheet date, the aging analysis of the trade and bills payables were as follows:

	2005 HK$'000	2004 HK$'000
Within 30 days	9,779	7,997
31-60 days	1,603	3,099
61-90 days	1,121	334
Over 90 days	15,889	21,281
	28,392	32,711

The fair value of the Group's trade and other payables at 31 December 2005 was approximated to the corresponding carrying amount.

27. OBLIGATIONS UNDER FINANCE LEASES

The lease terms are five years. For the year ended 31 December 2005, the average effective borrowing rate was 9% (2004: Nil). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Amounts payable under finance leases:				
Within one year	394	–	259	–
In more than one year but not more than two years	394	–	269	–
In more than two years but not more than three years	394	–	281	–
In more than three years but not more than four years	394	–	293	–
In more than four years but not more than five years	471	–	442	–
	2,047	–	1,544	–
Less: Future finance charges	(503)	–	–	–
Present value of lease obligations	1,544	–	1,544	–
Less: Amount due within one year shown under current liabilities			(259)	–
Amount due after one year			1,285	–

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Finance leases are denominated in Hong Kong dollars and Australian dollars.

The directors of the Company consider that the carrying amount of the obligations under finance leases approximated their fair value.

28. BANK BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank loans	150,970	114,852
Trust receipt loans	–	7,908
	150,970	122,760
Analysed as:		
Secured bank loans	16,728	27,042
Unsecured bank loans	134,242	95,718
	150,970	122,760

The above amounts bear interest at prevailing market rates and are repayable as follow:

	2005 HK$'000	2004 HK$'000
On demand or within one year	100,292	116,180
More than one year but not exceeding two years	2,588	3,120
More than two years but not more than five years	48,090	3,460
	150,970	122,760
Less: Amounts due within one year shown under current liabilities	(100,292)	(116,180)
Amount due after one year	50,678	6,580

At 31 December 2005, bank borrowings of HK$130,964,000 and HK$20,006,000 are fixed rate borrowings and floating rate borrowings respectively. The fixed rate bank borrowings carry interest ranging from 4.2 to 7.254% per annum and the floating rate borrowings carry interest at Hong Kong Interbank Offered Rate plus 2 to 3%.

28. BANK BORROWINGS (Continued)

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	RMB '000	United States Dollars '000
As at 31 December 2005	108,000	–
As at 31 December 2004	50,000	1,000

During the year, the Group obtained new loans in the amount of approximately HK$143,858,000. The loans drawn during the year bear interest at market rates and will be repayable varying from 2006 to 2008.

The directors of the Company consider that the carrying amount of bank borrowings approximate their fair value.

29. CURRENT PORTION OF OTHER LONG-TERM LIABILITIES

Amount represented the outstanding consideration payable for the acquisition of an additional 15% equity interest of a subsidiary. The outstanding consideration payable will be settled in 2005 by way of the Company's share or cash. During the year ended 31 December 2005, the Company issues and allots 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share to settle the consideration.

30. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2004	1,314,876,127	13,149
Issue of shares for partial settlement of consideration in respect of acquisition of a subsidiary *(note a)*	20,508,613	205
Issue of shares by placement (note b)	170,000,000	1,700
Issue of shares on exercise of share options	12,770,000	128
Issue of shares for scrip dividends	3,043,640	30
At 31 December 2004	1,521,198,380	15,212
Issue of shares for settlement of final consideration in respect of acquisition of a subsidiary *(note c)*	20,508,613	205
At 31 December 2005	1,541,706,993	15,417

Notes:

(a) On 21 September 2004, the Company allotted and issued 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share to settle the third phase of the consideration for the acquisition of 15% equity interest in a subsidiary.

(b) On 26 February 2004, the Company issued 170,000,000 new shares of HK$0.01 each by way of placing at HK$0.72 per share for cash.

(c) On 25 January 2005, the Company allotted and issued 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share to settle the final phase of the consideration for the acquisition of 15% equity interest in a subsidiary.

(d) All the new shares issued during the years ended 31 December 2004 and 2005 rank pari passu with the existing shares in all respects.

31. SHARE OPTION SCHEME

A share option scheme was adopted on 26 January 2002 ("2002 Share Option Scheme"). The 2002 Share Option Scheme was replaced by a new share option scheme adopted by the shareholders on 23 July 2003 ("2003 Share Option Scheme").

The Board of Directors of the Company may, at their discretion, grant option to the eligible participant including any employees, any non-executive directors, directors, suppliers, customers, advisors, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10 per cent of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholder in a general meeting of the Company. Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors. (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

At 31st December 2005, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Share Option Scheme of the Company was 100,900,000, representing 6.5% of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

Total consideration received during the year from eligible participants for taking up the options granted during the year is HK$22 (2004: Nil).

The exercise price of the share options is determined by the Board of Directors providing that the exercise price of the share options shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

31. SHARE OPTION SCHEME (Continued)

The 2003 Share Option Scheme will remain in force for a period of ten years commencing on 23 July 2003.

First phase:

On 21 June 2002, options were granted to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2002 Share Option Scheme at HK$0.39 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK$0.37 per share. Those who were granted with the options can exercise their rights in multiple periods starting from 16 August 2002 to 6 February 2012 as follows:

From 16 August 2002 to 6 February 2012	–	approximately 6,850,000 shares
From 1 January 2003 to 6 February 2012	–	approximately 8,280,000 shares
From 1 January 2004 to 6 February 2012	–	approximately 6,510,000 shares
From 1 January 2005 to 6 February 2012	–	approximately 8,360,000 shares

Second phase:

On 28 February 2003, options were granted to certain directors of certain subsidiaries of the Group to subscribe for an aggregate of 19,800,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2002 Share Option Scheme at HK$0.24 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK$0.21 per share. Those who were granted with the options can exercise their rights from 1 March 2003 to any time before expiry date on 6 February 2012.

Third phase:

On 29 September 2003, options were granted for an aggregate of 30,000,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2003 Share Option Scheme at HK$0.51 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK$0.50 per share. Those who were granted with the options can exercise their rights in multiple periods starting from 2 January 2004 to 6 February 2012 as follows:

From 2 January 2004 to 6 February 2012	–	approximately 8,990,000 shares
From 2 July 2004 to 6 February 2012	–	approximately 21,010,000 shares

31. SHARE OPTION SCHEME (Continued)

Fourth phase:

On 12 September 2005, options were granted for an aggregate of 69,800,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2003 Share Option Scheme at HK$0.23 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK$0.23 per share. Those who were granted with the options can exercise their rights in two periods starting from 1 January 2006 to 6 February 2012 as follows:

From 1 January 2006 to 6 February 2012 – approximately 34,900,000 shares
From 1 January 2007 to 6 February 2012 – approximately 34,900,000 shares

Movements of the share options during the year are set out below:

	Date of grant	Outstanding at 1 January 2004	Granted during the year	Exercised during the year	Outstanding at 31 December 2004	Granted during the year	Cancelled during the year	Outstanding at 31 December 2005	Exercise price per share HK$
Directors	12 September 2005	–	–	–	–	35,000,000	–	35,000,000	0.23
Independent non-executive directors	12 September 2005	–	–	–	–	4,500,000	–	4,500,000	0.23
Employees	21 June 2002	21,100,000	–	(2,740,000)	18,360,000	–	(15,970,000)	2,390,000	0.39
	28 February 2003	6,600,000	–	(6,600,000)	–	–	–	–	0.24
	29 September 2003	27,500,000	–	(2,680,000)	24,820,000	–	(5,260,000)	19,560,000	0.51
	12 September 2005	–	–	–	–	12,300,000	–	12,300,000	0.23
Connected person	12 September 2005	–	–	–	–	18,000,000	–	18,000,000	0.23
Other eligible participants	21 June 2002	8,900,000	–	(250,000)	8,650,000	–	–	8,650,000	0.39
	29 September 2003	1,000,000	–	(500,000)	500,000	–	–	500,000	0.51
		65,100,000	–	(12,770,000)	52,330,000	69,800,000	(21,230,000)	100,900,000	
Exercisable at the end of the year					43,970,000			31,100,000	

31. SHARE OPTION SCHEME (Continued)

During the year ended 31 December 2005, options were granted on 12 September 2005. The estimated fair value of the options granted on is approximately HK$5,875,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

Share price on grant date	HK$0.23
Exercise price	HK$0.23
Expected volatility	34.35%
Expected life	6.5 years
Risk-free rate	3.28%
Expected dividend yield	8.7%

Expected volatility was determined using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non transferability, exercise restrictions and behavioural considerations.

The risk-free interest rate is using the average Hong Kong Exchange Fund Notes for the past 2 years.

The Group recognised the total expense of approximately HK$3,525,000 for the year ended 31 December 2005 (2004: Nil) in relation to share options granted by the Company.

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2005, the Group entered into the following non-cash transactions:

(a) The Company allotted and issued 20,518,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share to settle the final phase of the consideration amounted to HK$9,434,000 for the acquisition of equity interest in a subsidiary.

(b) The Group entered into finance leases arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$1,718,000.

33. ACQUISITION OF A SUBSIDIARY

(a) During the year, the Group acquired a further 45% of the registered share capital of 監管倉at a consideration of approximately HK$865,000 (equivalent to approximately RMB900,000). This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$256,000.

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount and fair value
	HK$'000
NET ASSETS ACQUIRED:	
Property, plant and equipment	204
Trade and other receivables	34
Bank balances and cash	1,162
Trade and other payables	(46)
Minority interests	(203)
	1,151
Goodwill	256
	1,407
SATISFIED BY:	
Interest in an associate *(Note 17)*	542
Cash	865
	1,407
Net cash inflow arising on acquisition:	
Cash consideration	(865)
Bank balances and cash acquired	1,162
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	297

The subsidiary acquired during the year had no significant contribution to the Group's revenue and profit before tax for the year between the date of acquisition and the balance sheet date.

33. ACQUISITION OF A SUBSIDIARY (Continued)

(b) During the year ended 31 December 2004, the Group acquired a 60% of the registered share capital of 維奧三江 at a consideration of approximately HK$14,151,000 in which HK$4,717,000 was unpaid and included in commitments. This acquisition had been accounted for by the acquisition method of accounting and is analysed as follows:

	Acquiree's carrying amount HK$'000
NET ASSETS ACQUIRED:	
Property, plant and equipment	687
Inventories	403
Trade and other receivables	14,647
Bank balances and cash	1,547
Trade and other payables	(16)
Minority interests	(8,794)
	8,474
Goodwill	960
	9,434

Total consideration was satisfied by cash.

Net cash outflow arising on acquisition:	
Cash consideration	(9,434)
Bank balances and cash acquired	1,547
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(7,887)

The subsidiary acquired during the year had no significant contribution to the Group's revenue and profit before tax for the year between the date of acquisition and the balance sheet date.

34. RELATED PARTY TRANSACTIONS

The Group has significant related party transactions were carried out in the normal course of the Group's business:

	2005 HK$'000	2004 HK$'000
Raw materials purchased from a related company *(note a)*	**68,423**	55,825
Rental expense paid to a related company *(note b)*	**–**	78

Notes:

(a) A subsidiary of the Group purchased raw materials from Pharmco International, Inc. ("Pharmco"), a company which is wholly owned by the minority shareholders of another subsidiary, at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco.

(b) Pursuant to an agreement dated 15 March 2001 entered into between a subsidiary and Wuhan Maxin Industrial Company Limited ("Wuhan Maxin"), a company of which one of its directors is also the director of certain subsidiaries, rental expense was charged by Wuhan Maxin at an amount of RMB13,800 (equivalent to approximately HK$13,000) per month for a term of six years commencing on 1 January 2001. The Group ceased to lease the premise from 1 July 2004.

(c) Pursuant to a tenancy agreement dated 8 March 2001 entered into between Wuhan Maxin and the Group, Wuhan Maxin agreed to lease to the Group a premise in Wuhan, in the PRC, as staff canteen for a term of three years and nine months commencing from 31 March 2002 to 31 December 2005. Under the tenancy agreement, the Group agreed to provide meals free of charge to 20 employees of Wuhan Maxin for each month as the consideration. The Group ceased to lease the premise from 1 March 2004.

(d) Pursuant to a trademark licence agreement dated 14 August 2002 entered into between Beshabar (Macao Commercial Offshore) Ltd. ("Beshabar (Macao)"), a wholly owned subsidiary of the Company, and Maxsun International Limited ("Maxsun"), another 51% owned subsidiary of the Group, Maxsun granted a licence to Beshabar (Macao) to use its trademark of Osteoform for twenty years in certain territories free of charge.

(e) On 22 September 2003, Yugofoil Holdings Limited, a wholly owned subsidiary of the Company, entered into an agreement with the then minority shareholder ("Former Minority Shareholder") of Vital Sichuan, a then 85% owned subsidiary of the Company, to acquire the Former Minority Shareholder's 15% equity interest in Vital Sichuan at an aggregate consideration of RMB50,000,000 (equivalent to approximately HK$47,170,000).

For the year ended 31 December 2005, the Company settled the final phase of the consideration of RMB10,000,000 (equivalent to HK$9,434,000) by issuing 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share.

For the year ended 31 December 2004, the Company settled the partial remaining outstanding consideration of RMB20,000,000 (equivalent of HK$18,868,000). In which RMB10,000,000 were settled by cash and the remaining RMB10,000,000 were settled by issuing 20,508,613 ordinary shares of HK$0.01 each at a base price of HK$0.46 per share.

34. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(f) A tax indemnity dated 30 January 2002 were entered into by the controlling shareholders of the Company, the Company and its subsidiaries, the controlling shareholders provide indemnities on a joint and several basis in respect of, among other matters, taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002.

(g) During the year ended 31 December 2005, the Group acquired the remaining 40% equity interest in a subsidiary, 維奧三江 from the minority shareholders of 維奧三江 for a consideration of RMB7,200,000 (equivalent to HK$6,754,000).

(h) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	7,774	9,562
Post-employment benefits	74	158
Share-based payments	2,222	–
	10,070	9,720

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitments for the acquisition of property, plant and equipment

	2005 HK$'000	2004 HK$'000
Authorised but not contracted for	–	2,641
Contracted but not provided for	15,275	20,185
	15,275	22,826

(b) Commitments for the development of new products and/or technologies

	2005 HK$'000	2004 HK$'000
Contracted but not provided for	12,175	573

35. COMMITMENTS (Continued)

(c) Commitments under operating leases

The Group as lessee

The Group leases certain of its offices and staff quarters under operating lease arrangements. Lease for properties are negotiated for a term ranging from 1 to 2 years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005 HK$'000	2004 HK$'000
Land and buildings		
Within one year	2,478	2,689
In the second to fifth years inclusive	450	1,696
	2,928	4,385

36. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group were pledged to secure banking facilities granted to the Group and as follows:

	2005 HK$'000	2004 HK$'000
Property, plant and equipment	25,649	25,856
Investment securities	–	5,616
Available-for-sale investments	5,190	–
Bank balances and cash	8,133	17,876
	38,972	49,348

37. POST BALANCE SHEET EVENTS

(a) On 8 February 2006, the Group entered into agreement with the minority shareholder of the subsidiary to acquire 15% equity interest in the subsidiary, 監管倉 at a consideration approximate to HK$288,000. After the completion of the acquisition, the subsidiary become a wholly owned subsidiary of the Group.

(b) On 1 March 2006, the Group entered into agreement with an independent third party to disposal the property, plant and equipment in Melbourne, Australia at a consideration of A$1,800,000 (equivalent to HK$10,476,000) which close to the net book value.

(c) On 28 March 2006, the Group entered into a provisional sale and purchase agreement for the purchase of a property in Hong Kong at a consideration of approximately HK$13,459,000. The property is acquired for own use to facilitate the management and administration function of the Group.

38. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2005 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Direct subsidiaries:						
Ever Power Holding Inc.	Ordinary shares	British Virgin Islands ("BVI")	BVI	2 ordinary shares of US$1 each	100%	Investment holding
Gainful Plan Limited	Ordinary shares	BVI	BVI	2 ordinary shares of US$1 each	100%	Investment holding
Vital BioTech (Hong Kong) Limited	Ordinary shares	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding
Yugofoil Holdings Limited	Ordinary shares	BVI	Hong Kong	103 ordinary shares of US$1 each	100%	Investment holding

38. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Indirect subsidiaries:						
Beshabar Trading Limited	Ordinary shares	BVI	BVI	1 ordinary share of US$1	100%	Investment holding
Beshabar (Macao)	Ordinary shares	Macao	Macao	1 quota (share) of MOP100,000 each	100%	Trading
Beshabar Trading Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Trading
Darsawye Pty Ltd.	Ordinary shares	Australia	Australia	12 shares of AUD1 each	100%	Property holding
Maxsun	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	51%	Investment holding
# Wuhan Weiao	Contributed capital	PRC	PRC	RMB29,610,000	96.96%	Manufacturing and trading of pharmaceutical products
## Vital Sichuan	Contributed capital	PRC	PRC	RMB151,524,254	100%	Manufacturing and trading of pharmaceutical products
Vitapharm Research Pty Ltd.	Ordinary shares	Australia	Australia	20 ordinary shares of AUD1 each	100%	Research and development of biotechnology

38. PRINCIPAL SUBSIDIARIES (Continued)

	Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
	Indirect subsidiaries: (Continued)						
##	Vital (Sichuan) Biotech Co., Ltd.	Contributed capital	PRC	PRC	US$1,400,000	100%	Research and development of biotechnology
	Wide Triumph Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Management services
##	維奧三江	Contributed capital	PRC	PRC	RMB25,000,000	100%	Manufacturing and trading of pharmaceutical products
#	監管倉	Contributed capital	PRC	PRC	RMB2,000,000	85%	Provision of logistic services

Equity joint ventures
Wholly owned foreign enterprise

The above table lists the subsidiaries of the Group, which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.