

For the year ended December 31, 2002

16. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>20,809</u>	<u>19,110</u>

At December 31, 2002, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

17. LOAN RECEIVABLE

The loan is unsecured, carries interest at 6.435% per annum and is repayable as follows:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	795	795
Between one to two years	795	795
Between two to five years	1,450	2,245
	<u>3,040</u>	<u>3,835</u>
Less: Amount receivable within one year shown under current assets	<u>(795)</u>	<u>(795)</u>
Amount receivable after one year	<u>2,245</u>	<u>3,040</u>

18. INVENTORIES

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	53,055	41,853
Work in progress	81,983	56,560
Finished goods	139,898	50,518
	<u>274,936</u>	<u>148,931</u>

Included in the above are work in progress of nil (2001: HK\$9,095,000) and finished goods of nil (2001: HK\$4,749,000) which were carried at net realisable value.

For the year ended December 31, 2002

19. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period from 90 days to 120 days to its trade customers. An aged analysis of trade receivables is as follows:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	279,985	163,153
91 to 180 days	26,938	22,656
181 to 365 days	608	8,617
	<hr/>	<hr/>
	307,531	194,426
Other receivables	114,051	98,510
	<hr/>	<hr/>
	421,582	292,936
	<hr/> <hr/>	<hr/> <hr/>

20. LOAN RECEIVABLE

At December 31, 2002, the loan receivable is unsecured, carries interest at 6.435% per annum and is repayable on demand. Included in the loan receivable as at December 31, 2001 of approximately HK\$10,732,000, which was unsecured and carried interest at 4.7% per annum was fully provided for during the year.

21. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	297,548	188,512
91 to 180 days	34,167	28,032
181 to 365 days	27,263	9,238
More than 365 days	29,409	24,123
	<hr/>	<hr/>
	388,387	249,905
Other payables	113,646	105,244
	<hr/>	<hr/>
	502,033	355,149
	<hr/> <hr/>	<hr/> <hr/>

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22. BANK LOANS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	<u>627,723</u>	<u>469,331</u>	<u>125,010</u>	<u>135,000</u>
Analysed as:				
Secured	125,010	135,000	125,010	135,000
Unsecured	502,713	334,331	–	–
	<u>627,723</u>	<u>469,331</u>	<u>125,010</u>	<u>135,000</u>

The bank loans are repayable as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year or on demand	543,338	303,501	49,980	22,491
Between one to two years	59,365	88,948	50,010	44,982
Between two to five years	25,020	76,882	25,020	67,527
	<u>627,723</u>	<u>469,331</u>	<u>125,010</u>	<u>135,000</u>
Less: Amount shown under current liabilities	<u>(543,338)</u>	<u>(303,501)</u>	<u>(49,980)</u>	<u>(22,491)</u>
Amount due after one year	<u>84,385</u>	<u>165,830</u>	<u>75,030</u>	<u>112,509</u>

23. LOAN FROM ULTIMATE HOLDING COMPANY

The loan was unsecured, carried interest at commercial rate and was fully repaid during the year.

For the year ended December 31, 2002

24. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At January 1, 2001 and December 31, 2001	1,500,000,000	150,000
Increase in authorised share capital (note a)	1,500,000,000	150,000
	<u>3,000,000,000</u>	<u>300,000</u>
At December 31, 2002	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
– balance at January 1, 2001 and December 31, 2001	1,240,447,279	124,045
– issue of shares in consideration for the acquisition of a subsidiary (note b)	219,111,382	21,911
– exercise of share options (note c)	42,654,000	4,265
	<u>1,502,212,661</u>	<u>150,221</u>
At December 31, 2002	<u>1,502,212,661</u>	<u>150,221</u>

During the year, the following changes in the authorized and issued share capital of the Company took place:

- (a) Pursuant to an ordinary resolution passed at an extraordinary general meeting held on May 27, 2002, the authorised share capital of the Company was increased from HK\$150,000,000 to HK\$300,000,000 by the creation of an additional 1,500,000,000 ordinary shares of HK\$0.10 each in the Company. These shares rank pari passu with the then existing ordinary shares in all respects.

- (b) In April 2002, the Company entered into an agreement with SPG and one of its subsidiaries for the acquisition by the Company of the entire issued share capital of Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd. (“Zhongnuo”) for a consideration of approximately HK\$203.8 million. The consideration was satisfied by the issue and allotment of 219,111,382 shares of HK\$0.10 each in the Company to SPG (the “Consideration Shares”). The investment cost in Zhongnuo as stated in the financial statements amounted to approximately HK\$260.7 million as the Consideration Shares was accounted for by using the market price of HK\$1.19 per share on the date of completion of the acquisition. Details of this acquisition are set out in a circular issued by the Company to shareholders dated May 10, 2002.

- (c) During the year, 22,174,000 and 20,480,000 shares options were exercised at a subscription price of HK\$0.67 and HK\$0.61 per share, respectively, resulting in the issue of 42,654,000 ordinary shares of HK\$0.10 each in the Company.

All the ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

25. WARRANTS

In accordance with the conditions attaching to the Company’s warrants which were issued in 1999, the rights to subscribe for new shares in the Company expired on October 20, 2001. During the year ended December 31, 2001 and prior to their expiration, no warrant holders exercised their warrants.

26. SHARE OPTIONS

The Company's share option scheme (the "Scheme"), was adopted on May 27, 1994 for the primary purpose of providing incentives to directors and eligible employees, and will expire on May 26, 2004. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The subscription price, subject to adjustment, is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the last dealt prices of the shares of the Company on the five trading days immediately before the option is granted. Options granted are exercisable for a period to be notified by the board of directors to each grantee and in any event such period of time shall not exceed a period of three years commencing on the expiry of six months after the date on which the option is accepted and shall expire at the end of such three year period or May 26, 2004 whichever is earlier.

At December 31, 2002, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 52,130,000, representing 3.5% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The Stock Exchange amended the requirements for share option schemes under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). These requirements have come into effect from September 1, 2001. The Company is required to comply with the new requirements in granting of new share options under the Scheme from the said date.

The following tables disclose details of the Company's share option held by employees (including directors) and movements in such holdings during the year:

Date of grant	Exercisable period	Exercise price	Outstanding at beginning of year <i>HK\$</i>	Exercised during year	Outstanding at end of year
2.19.2000	8.20.2000 to 8.19.2003	0.67	30,000,000	(22,174,000)	7,826,000
3.27.2000	9.28.2000 to 9.27.2003	0.62	20,000,000	–	20,000,000
8.15.2001	2.16.2002 to 5.26.2004	0.61	44,784,000	(20,480,000)	24,304,000
			<u>94,784,000</u>	<u>(42,654,000)</u>	<u>52,130,000</u>

No option was granted, lapsed or cancelled during the year. The weighted average closing price of the shares on the dates on which the share options were exercised was HK\$1.39.

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26. SHARE OPTIONS – continued

The following table discloses movements in the Company's share options held by directors (and other key management) included in the above table:

Directors	Date of grant	Exercisable period	Exercise price	Number of share options outstanding at 1.1.2002 and 12.31.2002
Cai Dong Chen	3.27.2000	9.28.2000 to 9.27.2003	HK\$0.62	10,000,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	5,000,000
Ding Er Gang	3.27.2000	9.28.2000 to 9.27.2003	HK\$0.62	5,000,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000
Liu Yi	2.19.2000	8.20.2000 to 8.19.2003	HK\$0.67	1,306,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000
Qu Ji Guang	2.19.2000	8.20.2000 to 8.19.2003	HK\$0.67	1,304,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000
Wei Fu Min	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	4,304,000
Yue Jin	2.19.2000	8.20.2000 to 8.19.2003	HK\$0.67	1,304,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000
Wang Xian Jun (Note)	3.27.2000	9.28.2000 to 9.27.2003	HK\$0.62	5,000,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000
				48,218,000

Note: Mr. Wang Xian Jun resigned as a director of the Company on December 23, 2002 and the options granted to him previously lapsed on January 23, 2003.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

For the year ended December 31, 2002

27. RESERVES

	Share premium	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY			
At January 1, 2001	836,292	3,820	840,112
Profit attributable to shareholders	–	61,974	61,974
	<hr/>	<hr/>	<hr/>
At December 31, 2001	836,292	65,794	902,086
Issue of shares on acquisition of a subsidiary	238,832	–	238,832
Exercise of share options	23,084	–	23,084
Share issue expenses	(83)	–	(83)
Dividend paid (note 9)	–	(44,656)	(44,656)
Profit attributable to shareholders	–	143,301	143,301
	<hr/>	<hr/>	<hr/>
At December 31, 2002	<u>1,098,125</u>	<u>164,439</u>	<u>1,262,564</u>

The Company's reserves available for distribution to shareholders as at December 31, 2002 represent its accumulated profits of HK\$164,439,000 (2001: HK\$65,794,000).

28. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, deferred tax asset (liability) unrecognized (unprovided) are as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Taxation effect of timing differences arising as a result of:				
Tax losses available to set off against future assessable profits	8,054	4,553	7,268	3,764
Excess of depreciation allowances over depreciation	(70)	(113)	(62)	(101)
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>7,984</u>	<u>4,440</u>	<u>7,206</u>	<u>3,663</u>

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28. UNRECOGNISED DEFERRED TAXATION – continued

The amounts of unrecognised deferred tax credit for the year are as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax losses available to set off against future assessable profits	3,501	3,664	3,504	3,271
Excess of depreciation allowances over depreciation	43	52	39	53
	<u>3,544</u>	<u>3,716</u>	<u>3,543</u>	<u>3,324</u>

The deferred tax assets have not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

29. ACQUISITION OF A SUBSIDIARY

	2002	2001
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	190,365	–
Bank balances and cash	10,268	–
	<u>200,633</u>	<u>–</u>
Goodwill arising on acquisition of a subsidiary (Note 15)	61,842	–
	<u>262,475</u>	<u>–</u>
Satisfied by:		
Shares issued by the Company	260,743	–
Related expenses paid on acquisition	1,732	–
	<u>262,475</u>	<u>–</u>

For the year ended December 31, 2002

29. ACQUISITION OF A SUBSIDIARY – continued

Analysis of net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary:

	2002	2001
	HK\$'000	HK\$'000
Bank balances and cash acquired	10,268	–
Cash paid on acquisition	(1,732)	–
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary	8,536	–
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary acquired during the year contributed approximately HK\$234,796,000 to the Group's turnover and HK\$31,403,000 to the Group's profit from operations.

30. DISPOSAL OF SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Net assets disposed:		
Property, plant and equipment	–	70,335
Inventories	–	10,195
Trade and other receivables	–	7,521
Bank balances and cash	–	4,777
Trade and other payables	–	(12,894)
Subordinated loan from ultimate holding company	–	(31,500)
Bank borrowings – due within one year	–	(37,418)
Minority interests	–	(120)
	<hr/>	<hr/>
	–	10,896
Goodwill realised on disposal	–	1,385
Translation reserve realised on disposal	–	(191)
Gain on disposal of subsidiaries	–	4,051
	<hr/>	<hr/>
	–	16,141
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash consideration	–	16,141
	<hr/> <hr/>	<hr/> <hr/>

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30. DISPOSAL OF SUBSIDIARIES – continued

Analysis of the net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:

	2002	2001
	HK\$'000	HK\$'000
Cash consideration received	–	16,141
Bank balances and cash disposed of	–	(4,777)
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries	–	11,364
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries disposed of during the year ended December 31, 2001 did not contribute significantly to the Group's cash flow and operating results.

31. MAJOR NON-CASH TRANSACTION

For the year ended December 31, 2001, a dividend receivable of approximately HK\$4,911,000 from the Company's jointly controlled entity was capitalised as additional investment in that jointly controlled entity.

32. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Minimum lease payments paid under operating lease during the year in respect of land and buildings	<hr/> 4,547 <hr/>	<hr/> 6,178 <hr/>

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

	2002	2001
	HK\$'000	HK\$'000
THE GROUP		
– within one year	1,410	5,995
– in the second to fifth year inclusive	734	1,998
– over five years	703	–
	<hr/> 2,847 <hr/>	<hr/> 7,993 <hr/>
	<hr/> <hr/>	<hr/> <hr/>
THE COMPANY		
– within one year	764	1,310
– in the second to fifth year inclusive	–	764
	<hr/> 764 <hr/>	<hr/> 2,074 <hr/>
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32. OPERATING LEASE COMMITMENTS – continued

Significant portion of future minimum lease payments fall due within one year as the major lease entered into by the Group can be terminated by giving twelve months notice to the landlord.

33. CAPITAL COMMITMENTS

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

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>62,309</u>	<u>108,914</u>

The Company had no capital commitment at the balance sheet date.

34. CONTINGENT LIABILITIES

At December 31, 2002, the Company had given a corporate guarantee of HK\$7,800,000 (2001: HK\$23,220,000) to a bank to secure general banking facilities granted to a subsidiary of the Company.

35. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged all the equity interests of its wholly-owned subsidiary, Weisheng Pharmaceutical (Shijiazhuang) Co., Limited to a bank to secure bank loan granted to the Company.

36. EMPLOYEE RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government.

The relevant subsidiaries are required to make contributions to the state retirement schemes in the PRC based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. During the year, the contributions made by the PRC subsidiaries relating to the arrangement were approximately HK\$18,020,000 (2001: HK\$13,646,000).

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37. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(I) CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
SPG Group	Sale of finished goods (note a)	103,220	162,532
	Purchase of raw materials (note a)	19,609	24,656
	Service charges payable relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note b)	2,675	1,051
	Rental expenses (note c)	2,569	3,975
	Processing services charges (note d)	15,905	–
	Repairing charges (note e)	204	–
	Material processing charges (note e)	394	–
	Management fee income (note f)	52	102
	Interest expenses on loan from ultimate holding company (note g)	3,158	1,288

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37. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

(I) CONNECTED PARTIES – continued

Name of company	Nature of transactions/ balances	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
SPG Group	Acquisition of a subsidiary (note h)	260,743	–
	Proceeds from disposal of buildings to the SPG Group (note i)	–	1,554
	Proceeds from disposal of property, plant and equipment to the SPG Group (note j)	368	–
	Guarantee given by SPG Group (note k)	150,000	150,000
	Balance due from (to) the SPG Group at December 31		
	– trade receivables	91,046	146,989
	– long-term loan (note g)	–	(54,218)
		<u> </u>	<u> </u>

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
Huarong, a jointly controlled entity of the Group	Purchase of raw materials (note l)	36,652	31,326
	Provision of utility services by the Group (note m)	534	–
	Dividend income (note n)	5,239	4,911
	Balance due from (to) Huarong at December 31		
	– Dividend receivable	606	–
	– trade payable	(2,804)	(4,868)
	– non-trade receivable (note o)	5,401	5,401
		<u> </u>	<u> </u>

37. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued**(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES – continued***Notes:*

- (a) The transactions were carried out with reference to the market prices.
- (b) Pursuant to the services agreements entered into between the Group and the SPG Group, the service fees paid by the Group to the SPG Group for all composite services, other than the provision of utilities, were based on the nature and actual costs incurred by the SPG Group. For the provision of utilities, the service fees paid were based on the actual costs of the utilities incurred by the Group plus 2% as the handling charge.
- (c) Included in the rental expenses is an amount of HK\$1,938,000 (2001: HK\$3,975,000) which was paid in accordance with a tenancy agreement entered into by the Group and the SPG Group. Such tenancy agreement was terminated on April 22, 2002 upon the acquisition of Zhongnuo. The remaining rental expenses were paid in accordance with the other tenancy agreements entered into by the Group and the SPG Group.
- (d) Pursuant to the services agreement entered into by the Group and the SPG Group, the Group paid processing services fee to the SPG Group based on the actual costs incurred on the services provided by the SPG Group.
- (e) The transactions were based on terms agreed by both parties.
- (f) Pursuant to the services agreements entered into by the Group and the SPG Group, SPG Group paid management fee to the Group based on 2% of the actual energy cost incurred as handling charges.
- (g) The SPG made a long-term loan advance to a subsidiary of the Group during the year ended December 31, 2001 and which was fully repaid during the year. The loan carried interest at bank borrowing rate as quoted by the People's Bank of China.
- (h) Terms of the acquisition are set out in note 24(b).
- (i) On December 27, 2001, a wholly-owned subsidiary of the Company, Vitam Pharmaceutical (Shijiazhuang) Co., Ltd., entered into a Sale and Purchase Agreement with SPG, for the disposal of certain factory buildings. The consideration for the disposal was RMB1,649,000 (equivalent to approximately HK\$1,554,000) which was equivalent to the value of these disposed buildings as valued at December 31, 2001 by Chesterton Petty Limited, an independent firm of professional property valuers, on an open market value basis.
- (j) Property, plant and equipment was disposed of to the SPG Group at its net book value.
- (k) The SPG Group had given guarantee of HK\$150,000,000 (2001: HK\$150,000,000) to a bank to secure a bank loan granted to the Company.
- (l) The transactions were carried out with reference to the market.