

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

In the current year, the Group adopted the new Statement of Standard Accounting Practice No. 12 "Income taxes" ("SSAP 12") issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The adoption of the new SSAP 12 resulted in a change to the Group's accounting policies on deferred taxation. The change to the Group's accounting policy on deferred taxation and its effect are set out in note 1(j) below.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

(c) Intangible assets*(i) Goodwill and negative goodwill*

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition is included in intangible assets and is amortised using the straight line method over its estimated useful life, which is generally nine to thirteen years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the identifiable non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those identifiable acquired depreciable/amortisable assets; negative goodwill in excess of the fair values of those identifiable non-monetary assets is recognised in the consolidated profit and loss account immediately.

(ii) Patents

Cost incurred on the acquisition of patents are capitalised in the 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.

(iii) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred, except where it is expected that the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised and included in intangible assets and are amortised on a straight line basis over a period of not more than eight years to reflect the pattern in which the related economic benefits are recognised. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iv) Impairment of intangible assets

The carrying amount of each intangible asset is reviewed when there is an indication that an asset is impaired. When the carrying amount of an asset exceeds its recoverable amount, the carrying amount is written down to its estimated recoverable amount and is recognised in the consolidated profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(d) Fixed assets***(i) Construction in progress*

Construction in progress comprises land use rights and buildings on which construction work has not been completed. Construction in progress is carried at cost which includes cost of acquisition of land use rights, development and construction expenditure incurred, interest and other direct costs attributable to the development less any provision for impairment. On completion, the construction in progress is transferred to appropriate categories of other fixed assets.

(ii) Other fixed assets

Freehold land is stated at cost less any provision for impairment. Fixed assets other than freehold land are stated at cost less accumulated amortisation and depreciation and any provision for impairment.

(iii) Depreciation

No depreciation is provided for construction in progress and freehold land.

Land use rights are amortised over the unexpired period of rights granted on a straight line basis.

Other fixed assets are depreciated at rates sufficient to write off their costs less any provision for impairment losses over their estimated useful lives to their respective residual values estimated by the Directors on a straight line basis. The principal annual rates are summarised as follows:

Buildings	2.5%
Leasehold improvements	20% or over lease term, whichever is shorter
Plant and machinery	6.67 to 20%
Motor vehicles	20%
Furniture, fixtures and office equipment	10 to 27%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

(e) Investments in securities*(i) Investment securities*

Investment securities which are intended to be held on a continuing basis are stated at cost less any provision for impairment.

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

(ii) Other investments

Other investments, which are acquired principally for the purpose of generating a profit from short term fluctuation in price, are carried at fair values. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair values of other investments are recognised in the consolidated profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the consolidated profit and loss account as they arise.

(f) Inventories

Inventories which comprise materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the expected amount to be realised from use as estimated by the Directors or determined on the basis of anticipated sales proceeds less estimated selling expenses.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(g) Accounts receivable**

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

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, time deposits and bank overdrafts.

(i) Provisions

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

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the new SSAP 12 resulted in a change in the Group's accounting policy on deferred taxation. The change in the accounting policy on deferred taxation did not have material impact on the consolidated accounts for the years ended 31 December 2003 and 2002.

(k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(l) Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

(i) Operating lease charges

Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight line basis over the lease periods.

(ii) Assets held for use under operating leases

When the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(d) (iii) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(q) below.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(m) Employee benefits***(i) Retirement benefit costs*

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 China mainland, 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 China mainland. The relevant authorities of China mainland 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.

Contributions under the defined contribution schemes in Hong Kong and Australia and the Schemes as mentioned above are charged to the consolidated profit and loss account in the period to which the contributions relate.

(ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iii) Equity compensation benefits

Share options are granted to directors and employees of the Group. No compensation cost is recognised in the consolidated profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(iv) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by the Directors and employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

(o) Government grants and subsidies

Government grants and subsidies that become receivable as compensation for expenses or losses already incurred or for the purpose of providing financial assistance to the Group with no future related costs are recognised as income of the year in which they become receivable.

Government grants and subsidies are initially recognised as deferred income when there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants and subsidies will be received. Such grants and subsidies relating to income are recognised in the consolidated profit and loss account on a systematic basis to match with the related costs which they are intended to compensate.

Government grants and subsidies relating to the purchase of fixed assets are deducted from the carrying amount of the asset. The grants and subsidies are recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

The monetary assets received or receivable under the government grants are recorded as assets of the Group at fair value at date of the grants and subsidies.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(p) Translation of foreign currencies**

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

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst their profit and loss accounts expressed in foreign currencies are translated at average exchange rates during the year. Exchange differences are dealt with as a movement in reserves.

(q) 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.

Licence fee income for granting rights to the use of the technology and the sale of the pharmaceutical products of the Group is recognised when the Group's obligations to perform are completed in accordance with the applicable performance requirements and contractual terms.

Subcontracting fee income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

2. REVENUES AND TURNOVER

The Group is principally engaged in the trading and manufacturing of pharmaceutical products and licencing for granting rights to the use of the technology and the sale of pharmaceutical products in designated locations.

Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable, licence fee and subcontracting fee income. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of goods	277,420	165,139
Licence fee income	2,419	2,830
Subcontracting fee income	945	–
	<u>280,784</u>	<u>167,969</u>
Other revenues		
Interest income	633	348
Rental income from hire of plant and machinery	–	91
	<u>633</u>	<u>439</u>
Total revenues	<u>281,417</u>	<u>168,408</u>

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

Neither the business segments of the licencing and subcontracting businesses nor the geographical segment in other country are of a sufficient size to be reported separately.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Amortisation of negative goodwill (included in other operating expenses)	36	24
Exchange gains	4,092	154
Grants and subsidies from governments (included in other operating expenses)	4,518	1,841
Gain on disposal of investment securities and other investment	10	–
Charging		
Amortisation of intangible assets (included in other operating expenses)		
– goodwill	1,251	644
– patents	238	213
– development costs	77	58
Auditors' remuneration	1,247	808
Cost of inventories sold	76,866	48,869
Depreciation and amortisation of fixed assets	8,639	4,414
Listing expenses (<i>note</i>)	4,718	–
Loss on disposal of fixed assets	245	77
Operating lease rental expenses on land and buildings	1,891	1,893
Provision for and write-off of inventories	519	1,703
Provision for trade receivables	314	208
Research and development costs (included in other operating expenses)	6,128	3,217
Staff costs (including Directors' emoluments) (<i>note 9</i>)	32,908	15,558

Note:

On 7 February 2002, the shares of the Company had been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 4 August 2003, the listing of the shares of the Company was withdrawn from GEM and, on the same date, the shares of the Company were listed on the Main Board of the Stock Exchange ("Main Board"). The expenses of approximately HK\$4,718,000 were incurred in connection with the withdrawal of listing on GEM and the listing on the Main Board of the Company's shares.

4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest expenses on:		
– bank loans and overdrafts	4,326	3,871
– other loans wholly repayable within five years	59	142
– trade payables	–	53
– finance leases	–	67
– discounted bills of exchange	969	668
Other incidental borrowing costs	314	431
Total borrowing costs incurred	5,668	5,232
Less: interest capitalised in construction in progress	(988)	(329)
Total borrowing costs charged to the consolidated profit and loss account	4,680	4,903

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is 4.0% (2002: 7.0%) per annum.

5. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
– current year charge	–	–
– over provision in prior years	–	(60)
China mainland taxation	537	1,048
	<u>537</u>	<u>988</u>

No Hong Kong profits tax has been provided for the year as there was no estimated assessable profit (2002: HK\$Nil).

In accordance with the approval from relevant local tax bureaus, two subsidiaries operating in China mainland are entitled to the exemption from enterprise income tax in the first two years from the first profit-making year and 50% reduction in the subsequent three years. One subsidiary was on the first and second year of 50% reduction on enterprise income tax for the years ended 31 December 2002 and 2003 respectively. Another subsidiary was on the first and second year of full exemption from enterprise income tax for the years ended 31 December 2002 and 2003 respectively. Other subsidiaries in China mainland were in loss-making position for the current and the previous years and accordingly did not have any assessable income.

The subsidiary operating in Macao is 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.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable profits tax rate prevailing in the country in which the Group's principal operating subsidiaries operate and the difference is set out as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	71,062	49,307
Calculated at an applicable tax rate	12,791	8,875
Income of subsidiaries under tax exemption and reduction	(17,927)	(9,908)
Effect of different tax rates in other countries	(349)	328
Income not subject to taxation	(1,622)	(4,457)
Expenses not deductible for taxation purposes	6,384	4,407
Utilisation of previously unrecognised tax losses	(49)	(244)
Tax losses not recognised	1,309	2,047
Over provision for taxation in prior years	–	(60)
Taxation charge	<u>537</u>	<u>988</u>

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$39,705,000 (2002: HK\$24,676,000).

7. DIVIDENDS

Interim dividend, paid, of HK1 cent (2002: HK1 cent) per ordinary share, with options of 1 scrip share for every 45 shares (2002: 30 shares)

Final dividend, proposed, of HK1.5 cent (2002: HK1 cent) per ordinary share, with options of 1 scrip share for every 55 shares (2002: 20 shares) (note)

The dividends have been partially settled by scrip shares as follows:

Interim
Final

2003 HK\$'000	2002 HK\$'000
12,775	12,000
22,382	12,273
35,157	24,273
10,896	8,204
N/A	10,023

Note:

At a meeting held on 2 March 2004, the Directors declared a final dividend of HK1.5 cent per share for the year ended 31 December 2003. The dividend is not reflected as a dividend payable in the consolidated accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2004.

8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$61,142,000 (2002: HK\$40,592,000).

The basic earnings per share is based on the weighted average number of 1,265,733,938 (2002: 1,183,538,255) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31 December 2003 is based on 1,273,883,302 ordinary shares which are the weighted average number of 1,265,733,938 ordinary shares in issue during the year plus the weighted average number of 8,149,364 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

As the exercise price of the share options granted during the year ended 31 December 2002 was greater than the average market price of the Company's share, there was no dilution effect on earnings per share for the previous year.

9. STAFF COSTS

Wages and salaries (including Directors' emoluments)
Retirement benefit costs

2003 HK\$'000	2002 HK\$'000
31,227	14,950
1,681	608
32,908	15,558

The retirement benefit costs represent gross contributions by the Group to the schemes operated by the relevant authorities of China mainland and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). Contributions totalling HK\$54,000 payable to the Retirement Schemes as at 31 December 2003 (2002: HK\$53,000) 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 22 to the accounts.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

Details of the emoluments paid and payable to the Directors during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	240	222
Salaries, allowances and benefits in kind	3,179	3,401
Discretionary bonuses	2,000	–
Retirement benefit costs	48	48
	5,467	3,671

The four executive Directors received emoluments for the year ended 31 December 2003 of HK\$1,278,000 (2002: HK\$1,004,000), HK\$1,689,000 (2002: HK\$886,000), HK\$1,028,000 (2002: HK\$807,000) and HK\$1,232,000 (2002: HK\$752,000) respectively.

Directors' fees of HK\$240,000 (2002: HK\$222,000) were paid to independent non-executive Directors during the year.

During the year, no share options (2002: Nil) have been granted to any Directors under the Company's share option schemes.

The emoluments of the Directors fall into the following bands:

	Number of Directors	
	2003	2002
Emoluments bands		
Nil to HK\$1,000,000	2	6
HK\$1,000,001 – HK\$1,500,000	3	1
HK\$1,500,001 – HK\$2,000,000	1	–
	6	7

(b) Senior management's emoluments

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2003 include three (2002: four) Directors of the Company whose emoluments are reflected in the analysis presented above. The five individuals whose emoluments were the highest in the Group were as follows:

	2003 HK\$'000	2002 HK\$'000
Directors	4,199	3,449
Employees	6,788	677
	10,987	4,126

(c) Details of the emoluments paid by the Group to the two (2002: one) highest paid employees as mentioned in note 10(b) above are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	6,378	665
Discretionary bonuses	400	–
Retirement benefit costs	10	12
	6,788	677

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

The emoluments of the two (2002: one) highest paid individuals fall in the following bands:

Emoluments bands	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	2	–
	<u>2</u>	<u>1</u>

During the year, the two highest paid employees of the Group exercised 13,200,000 (2002: Nil) share options granted by the Company. The exercise price of the share options of the Company was HK\$0.24 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\$0.70 (2002: Not applicable). Benefits in kind 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.

- (d) During the year, no emoluments have been paid by the Group to the 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.

11. INTANGIBLE ASSETS

Group

	Goodwill		Negative goodwill		Patents		Development costs		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cost										
At 1 January	7,960	7,960	(182)	–	3,336	2,831	462	462	11,576	11,253
Additions	33,480	–	–	(182)	641	505	1,324	–	35,445	323
At 31 December	<u>41,440</u>	<u>7,960</u>	<u>(182)</u>	<u>(182)</u>	<u>3,977</u>	<u>3,336</u>	<u>1,786</u>	<u>462</u>	<u>47,021</u>	<u>11,576</u>
Accumulated amortisation										
At 1 January	2,212	1,568	(24)	–	1,157	944	87	29	3,432	2,541
Charge for the year	1,251	644	(36)	(24)	238	213	77	58	1,530	891
At 31 December	<u>3,463</u>	<u>2,212</u>	<u>(60)</u>	<u>(24)</u>	<u>1,395</u>	<u>1,157</u>	<u>164</u>	<u>87</u>	<u>4,962</u>	<u>3,432</u>
Net book value										
At 31 December	<u>37,977</u>	<u>5,748</u>	<u>(122)</u>	<u>(158)</u>	<u>2,582</u>	<u>2,179</u>	<u>1,622</u>	<u>375</u>	<u>42,059</u>	<u>8,144</u>

The goodwill/negative goodwill arose from the acquisitions of relevant equity interests of subsidiaries by the Group.

The patents included an amount of HK\$2,831,000 (2002: 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. The patents also included the amounts of HK\$1,146,000 (2002: HK\$505,000) paid for registration of certain patents in certain countries.

Development costs mainly represented payments for development of the production technology of new products. Additions during the year included amounts of HK\$1,132,000 (2002: HK\$Nil) transferred from payments for pharmaceutical projects (note 16(b)).

**12. FIXED ASSETS
Group**

	Land use rights HK\$'000	Freehold land HK\$'000	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 2003	7,999	979	3,390	36,442	1,878	50,549	5,399	3,566	110,202
Exchange translation differences	–	319	1,104	–	–	558	–	133	2,114
Additions	–	–	4,670	32,595	13	18,653	8,117	1,411	65,459
Transfer	12,975	–	3,173	(16,312)	–	164	–	–	–
Disposals	–	–	–	–	–	(774)	(70)	(176)	(1,020)
At 31 December 2003	20,974	1,298	12,337	52,725	1,891	69,150	13,446	4,934	176,755
Accumulated amortisation/ depreciation									
At 1 January 2003	291	–	–	–	1,264	4,102	1,846	924	8,427
Exchange translation differences	–	–	–	–	–	296	–	47	343
Charge for the year	269	–	237	–	578	5,536	1,195	824	8,639
Disposals	–	–	–	–	–	(536)	(8)	(17)	(561)
At 31 December 2003	560	–	237	–	1,842	9,398	3,033	1,778	16,848
Net book value									
At 31 December 2003	20,414	1,298	12,100	52,725	49	59,752	10,413	3,156	159,907
At 31 December 2002	7,708	979	3,390	36,442	614	46,447	3,553	2,642	101,775

Company

	Office equipment HK\$'000
Cost	
At 1 January 2003	84
Additions	25
At 31 December 2003	109
Accumulated depreciation	
At 1 January 2003	11
Charge for the year	19
At 31 December 2003	30
Net book value	
At 31 December 2003	79
At 31 December 2002	73

12. FIXED ASSETS (Continued)

Notes:

- (a) The Group's land use rights are held outside Hong Kong under leases of 10 to 50 years. Freehold land is held outside Hong Kong.
- (b) At 31 December 2003, the net book value of the Group's fixed assets pledged as security for the Group's long-term and short-term bank loans amounted to approximately HK\$46,341,000 (2002: HK\$44,538,000).
- (c) The aggregate cost and accumulated depreciation of the Group's plant and machinery held for use under operating leases as at 31 December 2003 amounted to approximately HK\$Nil (2002: HK\$344,000) and HK\$Nil (2002: HK\$218,000) respectively.
- (d) At 31 December 2003, construction in progress included accumulated interest expenses capitalised of approximately HK\$768,000 (2002: HK\$329,000).

13. SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	53,046	53,036
Amounts due from subsidiaries	136,020	87,906
Amounts due to subsidiaries	(1,007)	(7)
	188,059	140,935

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayments.

Details of the principal subsidiaries of the Company are set out in note 30 to the accounts.

14. INVESTMENT SECURITIES

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments in guaranteed funds, at cost	4,056	3,900
Unlisted investments in certificates of deposits, at cost	1,560	–
	5,616	3,900

Investment securities of HK\$5,616,000 (2002: HK\$Nil) were pledged for long-term bank loans of the Group.

15. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials		
– in transit	17,602	5,936
– on hand	6,590	193
Work in progress	3,800	8,890
Finished goods	9,943	5,815
Packing materials	735	1,099
	38,670	21,933

At 31 December 2003 and 2002, the carrying amount of inventories that were carried at cost amounted to HK\$38,670,000 (2002: HK\$21,933,000).

16. RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables (<i>note a</i>)	58,030	56,731	–	–
Prepayment and deposits	11,384	11,041	1,468	2,988
Payments for pharmaceutical projects (<i>note b</i>)	7,103	8,171	2,830	2,830
Other receivables	4,627	4,026	–	–
Receivable from the former minority shareholder of a subsidiary	146	–	–	–
	<u>81,290</u>	<u>79,969</u>	<u>4,298</u>	<u>5,818</u>

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 120 days which are subject to periodic review by management.

At 31 December 2003, the age analysis of the trade receivables net of provision for doubtful debts was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	25,212	27,714
31-60 days	14,625	21,772
61-90 days	7,589	6,375
Over 90 days	10,604	870
	<u>58,030</u>	<u>56,731</u>

- (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 11) in accordance with the Group's accounting policy as set out in note 1(c)(iii) above.

17. OTHER INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at fair value	<u>151</u>	<u>94</u>

18. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 31 December 2003 included deposits of approximately HK\$6,027,000 (2002: HK\$5,983,000) pledged as collateral for trust receipt loan and bank overdraft facilities.

Bank balances and cash of HK\$3,160,000 (2002: HK\$Nil) were pledged for the long-term bank loans of the Group.

Included in bank balances and cash of the Group as at 31 December 2003 was a deposit of HK\$471,000 (2002: HK\$2,000,000) pledged as collateral for credit facility granted to a subsidiary by a bank.

Bank balances and cash of the Group as at 31 December 2003 included amounts of approximately HK\$34,831,000 (2002: HK\$24,607,000) denominated in Renminbi not freely convertible to other currencies.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables	20,185	9,529	–	–
Accrued charges and other payables	20,395	10,043	5,931	769
	<u>40,580</u>	<u>19,572</u>	<u>5,931</u>	<u>769</u>

At 31 December 2003, the age analysis of the trade payables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	18,720	5,327
31-60 days	1,151	1,437
61-90 days	59	1,118
Over 90 days	255	1,647
	<u>20,185</u>	<u>9,529</u>

20. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Amounts payable are unsecured, interest free and have no fixed terms of repayment.

21. SHORT-TERM BANK LOANS

	Group	
	2003 HK\$'000	2002 HK\$'000
Short-term bank loans		
– secured (<i>note</i>)	6,920	4,717
– unsecured	68,717	45,283
Trust receipt loans – secured (<i>note 18</i>)	–	3,715
	<u>75,637</u>	<u>53,715</u>

Note:

At 31 December 2003, short-term bank loans of approximately HK\$6,920,000 (2002: HK\$4,717,000) were secured by certain fixed assets of the Group.

22. SHARE CAPITAL

Authorised:

	2003			2002		
	Number of shares	Par value per share HK\$	Amount HK\$'000	Number of shares	Par value per share HK\$	Amount HK\$'000
At 1 January	50,000,000,000	0.01	500,000	3,900,000	0.1	390
Subdivision of 1 share to 10 shares (<i>note b(i)</i>)	–	–	–	35,100,000	0.01	–
Increase in authorised share capital (<i>note b(ii)</i>)	–	–	–	49,961,000,000	0.01	499,610
At 31 December	<u>50,000,000,000</u>	<u>0.01</u>	<u>500,000</u>	<u>50,000,000,000</u>	<u>0.01</u>	<u>500,000</u>

22. SHARE CAPITAL (Continued)

Issued and fully paid:

	2003			2002		
	Number of shares	Par value per share HK\$	Amount HK\$'000	Number of shares	Par value per share HK\$	Amount HK\$'000
At 1 January	1,227,347,268	0.01	12,273	909,091	0.10	-
Shares allotted and issued for acquisition of subsidiaries pursuant to a group reorganisation (<i>note a</i>)	-	-	-	909,090	0.10	182
Shares allotted and issued for capitalisation of amounts due to Directors pursuant to the group reorganisation (<i>note a</i>)	-	-	-	1	0.10	-
Share split (<i>note b(i)</i>)	-	-	-	16,363,638	0.01	-
Capitalisation issue (<i>note b(iii)</i>)	-	-	-	941,818,180	0.01	9,418
Issue of shares by placement (<i>note b(iv)</i>)	-	-	-	240,000,000	0.01	2,400
Issue of shares on exercise of share options	13,200,000	0.01	132	-	0.01	-
Issue of shares for scrip dividends	74,328,859	0.01	744	27,347,268	0.01	273
At 31 December	1,314,876,127	0.01	13,149	1,227,347,268	0.01	12,273

(a) On 23 January 2002, the shareholders of the Company transferred the entire share capital of Yugofoil Holdings Limited to the Company in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 909,090 new shares of HK\$0.10 each; and (ii) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each then held by shareholders of the Company.

On 23 January 2002, the Company allotted and issued one share of HK\$0.10 each, at the joint direction of three Directors, to a Director of the Company for the settlement of amounts of AUD475,000 (approximately HK\$1,900,000) due to these three Directors.

(b) Pursuant to resolution in writing passed by all shareholders of the Company on 26 January 2002:

- (i) the then issued and unissued shares having a par value of HK\$0.10 each in the capital of the Company were subdivided into ten shares of HK\$0.01 each.
- (ii) the authorised share capital of the Company was increased by HK\$499,610,000 from HK\$390,000 to HK\$500,000,000 by the creation of additional 49,961,000,000 shares of HK\$0.01 each.
- (iii) a total of 941,818,180 shares were allotted as fully paid at par to shareholders whose names appeared on the register of shareholders of the Company in proportion to their respective shareholdings at the close of business on 26 January 2002 by way of capitalisation issue of the sum of HK\$9,418,182 standing to the credit of the share premium account of the Company.
- (iv) the Company issued 240,000,000 new shares of HK\$0.01 each by way of placing at HK\$0.45 per share for cash.

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 purpose of the 2002 Share Option Scheme and 2003 Share Option Scheme are to grant share options to selected participants satisfying the criteria as set out in the schemes. The consideration to be paid on each grant of option is HK\$1. The 2003 Share Option Scheme will remain in force for a period of ten years commencing on 23 July 2003.

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

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.

22. SHARE CAPITAL (Continued)**Share option scheme** (Continued)

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

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

Category	Exercise price HK\$	Outstanding at 1 January 2003	Granted during the year	Exercised during the year	Waived during the year	Outstanding at 31 December 2003	Vested percentage as at 31 December 2003	Vested percentage as at 31 December 2002
Directors of certain subsidiaries	0.24	–	19,800,000	(13,200,000)	–	6,600,000	100%	N/A
	0.51	–	12,405,000	–	–	12,405,000	0%	N/A
Employees of the Group	0.39	21,100,000	–	–	–	21,100,000	55.4%	25.6%
	0.51	–	16,595,000	–	(1,500,000)	15,095,000	0%	N/A
Others	0.39	8,900,000	–	–	–	8,900,000	38.8%	16.3%
	0.51	–	1,000,000	–	–	1,000,000	0%	N/A
		<u>30,000,000</u>	<u>49,800,000</u>	<u>(13,200,000)</u>	<u>(1,500,000)</u>	<u>65,100,000</u>		

On 24 October 2003, 13,200,000 options were exercised by the directors of certain subsidiaries at HK\$0.24 per share. The closing price of the shares of the Company on the date when the share options were exercised during the year was HK\$0.70 (2002: Not applicable).

Subsequent to the year end, 6,600,000 and 680,000 options were exercised by a director of certain subsidiaries and employees of the Group at HK\$0.24 and HK\$0.39 per share respectively.

**23. RESERVES
Group**

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Reserve fund HK\$'000	Enterprise development fund HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002	1,719	119	1,231	616	50,127	53,812
Exchange translation differences	–	(89)	–	–	–	(89)
Premium on issue of shares by placement	105,600	–	–	–	–	105,600
Capitalisation issue	(9,418)	–	–	–	–	(9,418)
Share issue expenses	(22,142)	–	–	–	–	(22,142)
Profit for the year	–	–	–	–	40,592	40,592
2002 interim dividends (<i>note 7</i>)	–	–	–	–	(12,000)	(12,000)
Premium on issue of shares for scrip dividends	7,931	–	–	–	–	7,931
At 31 December 2002	83,690	30	1,231	616	78,719	164,286
Representing:						
Reserves	83,690	30	1,231	616	66,446	152,013
2002 final dividend proposed (<i>note 7</i>)	–	–	–	–	12,273	12,273
	83,690	30	1,231	616	78,719	164,286
At 1 January 2003	83,690	30	1,231	616	78,719	164,286
Exchange translation differences	–	(494)	–	–	–	(494)
Transfer of reserves (<i>note b</i>)	–	–	7,261	–	(7,261)	–
Premium on issue of shares on exercise of share options	3,036	–	–	–	–	3,036
Profit for the year	–	–	–	–	61,142	61,142
2002 final dividends (<i>note 7</i>)	–	–	–	–	(12,273)	(12,273)
2003 interim dividends (<i>note 7</i>)	–	–	–	–	(12,775)	(12,775)
Premium on issue of shares for scrip dividends	20,175	–	–	–	–	20,175
At 31 December 2003	106,901	(464)	8,492	616	107,552	223,097
Representing:						
Reserves	106,901	(464)	8,492	616	85,170	200,715
2003 final dividend proposed (<i>note 7</i>)	–	–	–	–	22,382	22,382
	106,901	(464)	8,492	616	107,552	223,097

23. RESERVES (Continued)
Company

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002	–	(294)	(294)
Premium on issue of shares for acquisition of subsidiaries and capitalisation of amounts due to Directors pursuant to the group reorganisation (<i>note a</i>)	54,754	–	54,754
Premium on issue of shares by placement	105,600	–	105,600
Capitalisation issue	(9,418)	–	(9,418)
Share issue expenses	(22,142)	–	(22,142)
Profit for the year	–	24,676	24,676
2002 interim dividends (<i>note 7</i>)	–	(12,000)	(12,000)
Premium on issue of shares for scrip dividends	7,931	–	7,931
	<u>136,725</u>	<u>12,382</u>	<u>149,107</u>
At 31 December 2002			
Representing:			
Reserves	136,725	109	136,834
2002 final dividend proposed (<i>note 7</i>)	–	12,273	12,273
	<u>136,725</u>	<u>12,382</u>	<u>149,107</u>
At 1 January 2003	136,725	12,382	149,107
Premium on issue of shares on exercise of share options	3,036	–	3,036
Profit for the year	–	39,705	39,705
2002 final dividends (<i>note 7</i>)	–	(12,273)	(12,273)
2003 interim dividends (<i>note 7</i>)	–	(12,775)	(12,775)
Premium on issue of shares for scrip dividends	20,175	–	20,175
	<u>159,936</u>	<u>27,039</u>	<u>186,975</u>
At 31 December 2003			
Representing:			
Reserves	159,936	4,657	164,593
2003 final dividend proposed (<i>note 7</i>)	–	22,382	22,382
	<u>159,936</u>	<u>27,039</u>	<u>186,975</u>

Notes:

- (a) The share premium of the Group as at 1 January 2002 of HK\$1,719,000 represented the difference between the nominal value of the shares of the subsidiaries acquired together with amounts due to Directors capitalised pursuant to the group reorganisation undertaken in 2002 and the nominal value of the Company's shares issued in exchange therefor.
- The premium on issue of shares for acquisition of subsidiaries and capitalisation of amounts due to Directors pursuant to the group reorganisation undertaken in 2002 represented the excess of the consolidated net asset value of the subsidiaries acquired together with amounts due to Directors capitalised over the nominal value of the Company's shares issued in exchange therefor.
- (b) A subsidiary in the People's Republic of China (the "PRC") has appropriated 10% of the profit for the year ended 31 December 2003 to reserve fund. The reserve fund is required to be retained in the accounts of the subsidiary for specific purposes.
- (c) Pursuant to the Companies Law of the Cayman Islands and the Company's Article of Association, the share premium of the Company is distributable to the shareholders. At 31 December 2003, in the opinion of the Directors, the Company's reserves available for distribution to shareholders comprising share premium account and retained profits, amounted to HK\$186,975,000 (2002: HK\$149,107,000).

24. LONG-TERM LIABILITIES

	2003 HK\$'000	Group 2002 HK\$'000
Bank loans – secured (<i>note a</i>)	14,820	12,395
Other payable (<i>note b</i>)	28,302	–
	<u>43,122</u>	<u>12,395</u>
Current portion of long-term liabilities		
– bank loans	(3,120)	(2,867)
– other payable (<i>note b</i>)	(18,868)	–
	<u>(21,988)</u>	<u>(2,867)</u>
	<u>21,134</u>	<u>9,528</u>

Notes:

- (a) At 31 December 2003, the Group's long-term bank loans which were wholly repayable within five years were repayable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	3,120	2,867
In the second year	3,120	4,754
In the third to fifth years inclusive	8,580	4,774
	<u>14,820</u>	<u>12,395</u>

The long-term bank loans as at 31 December 2003 were secured by investment securities and bank balances and cash of the Group. The long-term bank loans as at 31 December 2002, which were early repaid during the year, were secured by certain fixed assets of the Group.

- (b) Other payable represented the outstanding consideration payable for the acquisition of 15% equity interest of a subsidiary. The outstanding consideration payable will be repayable in three equal instalments. The first two payments and the last payment are to be made in 2004 and 2005 respectively. Pursuant to the agreement in connection with the aforesaid acquisition, if the Group fails to settle the consideration according to the required payment schedule, the Group is required to pay interest at the rate of 1% per month from the date on which the payment should be made until the relevant payment has been fully settled.

25. DEFERRED TAXATION

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 HK\$18,012,000 (2002: HK\$11,587,000), of which HK\$8,515,000 (2002: HK\$2,129,000) would expire within the coming five years up to year 2008 (2002: year 2007).

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to cash generated from operations**

	2003 HK\$'000	2002 HK\$'000
Operating profit	75,742	54,210
Interest income	(633)	(348)
Depreciation and amortisation	8,639	4,414
Gain on disposal of investment securities and other investment	(10)	–
Loss on disposal of fixed assets	245	77
Amortisation of intangible assets (net)	1,530	891
	<u>85,513</u>	<u>59,244</u>
Operating profit before working capital changes	85,513	59,244
Increase in inventories	(16,737)	(18,142)
Increase in receivables and prepayments	(3,405)	(28,289)
Increase in trade and other payables	20,000	4,755
Increase/(decrease) in amounts due to minority shareholders of subsidiaries	130	(222)
Decrease in amounts due to Directors	–	(200)
(Decrease)/increase in value added tax payable	(2,928)	3,394
	<u>82,573</u>	<u>20,540</u>
Cash generated from operations	82,573	20,540

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(b) Analysis of changes in financing during the year**

	Share capital (including share premium)							Obligations under finance leases
	Dividend payable HK\$'000	Minority interests HK\$'000	Long-term bank loans HK\$'000	Short-term bank loans HK\$'000	Trust receipt loans HK\$'000	Other loans HK\$'000		
At 1 January 2002	–	2,430	14,319	18,585	2,449	4,751	275	
Minority interests' in share of profits less losses of subsidiaries	–	7,727	–	–	–	–	–	
Acquisition of additional interest in a subsidiary (note 26(c))	–	(182)	–	–	–	–	–	
Dividends	12,000	–	–	–	–	–	–	
Issue of shares for scrip dividends	(8,204)	8,204	–	–	–	–	–	
Cash inflow/(outflow) from financing activities	(3,796)	1,557	(1,924)	31,415	1,266	(1,921)	(275)	
At 31 December 2002	–	11,532	12,395	50,000	3,715	2,830	–	

	Share capital (including share premium)							Other loan
	Dividend payable HK\$'000	Minority interests HK\$'000	Long-term bank loans HK\$'000	Short-term bank loans HK\$'000	Trust receipt loans HK\$'000			
At 1 January 2003	–	11,532	12,395	50,000	3,715		2,830	
Minority interests' in share of profits less losses of subsidiaries	–	9,383	–	–	–	–	–	
Acquisition of additional interest in a subsidiary (notes 26 (c))	–	(13,836)	–	–	–	–	–	
Dividends	25,048	–	–	–	–	–	–	
Issue of shares for scrip dividends	(20,919)	20,919	–	–	–	–	–	
Other loan reclassified as other payables	–	–	–	–	–	–	(943)	
Cash inflow/(outflow) from financing activities	(4,129)	(5,276)	2,425	25,637	(3,715)		(1,887)	
At 31 December 2003	–	1,803	14,820	75,637	–		–	

(c) Purchase of additional equity interest in a subsidiary

	2003 HK\$'000	2002 HK\$'000
Share of net assets acquired	13,836	2,142
Goodwill/(negative goodwill) (note 11)	33,480	(182)
	<u>47,316</u>	<u>1,960</u>
Satisfied by:		
Cash and/or shares of the Company (note 26 (d))	<u>47,316</u>	<u>1,960</u>

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(d) Major non-cash transactions**

The total consideration and direct costs for the purchase of additional equity interest in a subsidiary during the year ended 31 December 2003 (note 26(c)) amounted to RMB50,000,000 (equivalent to approximately HK\$47,170,000) and HK\$146,000 respectively. First payment of the consideration of RMB20,000,000 (equivalent to approximately HK\$18,868,000) together with the direct costs of HK\$146,000 were paid by cash during the year. The remaining outstanding consideration payable of RMB30,000,000 (equivalent to approximately HK\$28,302,000) is to be settled by cash and/or shares of the Company in three equal instalments over eighteen months from the date of the agreement of the purchase (note 27(g)).

The purchase of the additional equity interest in a subsidiary in 2002 was by way of capital contribution through cash injection into the subsidiary.

(e) Analysis of balances of cash and cash equivalents

	2003 HK\$'000	2002 HK\$'000
Bank balances and cash – unpledged	62,105	57,976

27. RELATED PARTY TRANSACTIONS

In addition to those transactions with related parties disclosed elsewhere in the accounts, the following significant related party transactions were carried out in the normal course of the Group's business:

	2003 HK\$'000	2002 HK\$'000
Raw materials purchased from a related company (note a)	(40,600)	(37,072)
Rental expense paid to Wuhan Institute of Virology (note b)	(226)	(226)
Rental expense to a related company (note c)	(156)	(156)
Rental expense paid to a Director (note d)	–	(44)

Notes:

- (a) A subsidiary of the Group purchased raw materials from Pharmco International, Inc. ("Pharmco"), a company 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) Rental expense was charged by Wuhan Institute of Virology at a lump sum of RMB240,000 (equivalent to approximately HK\$226,000) (2002: RMB240,000 (equivalent to approximately HK\$226,000)) per annum for the year ended 31 December 2003 as set out in an agreement for a term of six years commencing on 1 January 2001 entered into between a subsidiary of the Group and Wuhan Institute of Virology dated 20 December 2000 and an addendum dated 20 January 2001.
- (c) 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.
- (d) Pursuant to a tenancy agreement entered into between the Group and Mr. Tao Lung ("Mr. Tao"), a Director, on 8 September 2001, the Group leased office premises from Mr. Tao for a term of one year commencing from 8 September 2001 at a monthly rental of RMB30,684 (equivalent to approximately HK\$29,000), exclusive of management fee and outgoings. The lease agreement was terminated on 15 February 2002.
- (e) 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.
- (f) 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.
- (g) On 22 September 2003, Yugofoil Holdings Limited, a wholly owned subsidiary of the Company, entered into an agreement (the "Agreement") with the then minority shareholder ("Former Minority Shareholder") of Vital Pharmaceuticals (Sichuan) Co. Ltd. ("Sichuan Pharmaceutical"), a then 85% owned subsidiary of the Company, to acquire the Former Minority Shareholder's 15% equity interest in Sichuan Pharmaceutical at an aggregate consideration of RMB50,000,000 (equivalent to approximately HK\$47,170,000).
- RMB20,000,000 (equivalent to approximately HK\$18,868,000) of the consideration was settled during the year. The remaining consideration of RMB30,000,000 (equivalent to approximately HK\$28,302,000) is to be settled by cash and/or shares of the Company in three equal instalments within six, twelve and eighteen months respectively from the date of the Agreement.
- The conditions for the acquisition were completed during the year.
- (h) At 31 December 2003, short term bank loans of approximately HK\$9,434,000 (2002: HK\$18,868,000) of Sichuan Pharmaceutical were guaranteed by Wuhan Weiao Pharmaceuticals Co., Ltd. ("Wuhan Weiao"), a 95% owned subsidiary of the Group. At the same date, short term bank loans and other loan of approximately HK\$12,264,000 (2002: HK\$2,830,000) and HK\$Nil (2002: HK\$2,830,000) respectively of Wuhan Weiao were guaranteed by Sichuan Pharmaceutical.

27. RELATED PARTY TRANSACTIONS (Continued)

- (i) During the year, loan and advance totalling HK\$13,915,000 (2002: HK\$Nil) were lent to the Former Minority Shareholder of Sichuan Pharmaceutical. The loan and advance were unsecured and interest free and were fully repaid during the year.
- (j) At 31 December 2002, the Group prepaid approximately HK\$2,642,000 to a third party for acquisition of the production technology of a product pursuant to an agreement dated 10 April 2002 (the "Technology Agreement"). Wuhan Maxin has provided a guarantee to reimburse the prepaid amount together with interest costs to the Group if the third party fails to comply the terms and conditions of the Technology Agreement. The guarantee was replaced by a guarantee provided by a third party on 1 January 2003.
- (k) The Group has amounts due from non-wholly owned subsidiaries which are unsecured, interest free and have no fixed terms of repayment. The amounts receivable as at 31 December 2003 were as follows:

	2003 HK\$'000	2002 HK\$'000
Wuhan Weiao	17,878	15,141
Sichuan Pharmaceutical (#)	N/A	7,177

- (#) *Sichuan Pharmaceutical became a wholly owned subsidiary of the Group upon the completion of the acquisition of the equity interest from the Former Minority Shareholder during the year (note 27(g)).*

28. COMMITMENTS**(a) Capital commitments**

	2003 HK\$'000	2002 HK\$'000
Authorised but not contract for – fixed assets	23,758	38,998
Contracted but not provided for – fixed assets	32,491	17,067
– investment	7,075	–
	39,566	17,067
	63,324	56,065

At 31 December 2003, the Group's committed investment represented a 19.9% equity interest in Qingdao Growful Vital Pharmaceutical Co., Ltd.

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

	2003 HK\$'000	2002 HK\$'000
Authorised but not contracted for	27,473	–
Contracted but not provided for	4,840	603
	32,313	603

(c) Commitments under operating leases

At 31 December 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003 HK\$'000	2002 HK\$'000
Land and buildings		
Not later than one year	1,334	1,393
Later than one year and not later than five years	1,733	1,758
Later than five years	468	850
	3,535	4,001

29. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for utilised banking facilities of subsidiaries	-	-	61,838	28,882
Bills of exchange discounted with recourse	-	37,736	-	37,736
	-	37,736	61,838	66,618

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2003 are as follows:

Name	Place of incorporation/ establishment	Place of operations	Principal activities	Particulars of issued share capital/ paid up capital	Group's equity interest held	
					2003	2002
Direct subsidiaries:						
Ever Power Holding Inc.	British Virgin Islands ("BVI")	BVI	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Gainful Plan Limited	BVI	BVI	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Sino Lion Capital Inc.	BVI	BVI	Investment holding	1 ordinary share of US\$1	100%	100%
Vital BioTech (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%	100%
Yugofoil Holdings Limited (note a)	BVI	Hong Kong	Investment holding	103 ordinary shares of US\$1 each	100%	100%
Indirect subsidiaries:						
Beshabar Trading Limited	BVI	BVI	Investment holding	1 ordinary share of US\$1	100%	100%
Beshabar (Macao Commercial Offshore) Limited	Macao	Macao	Trading	1 quota (share) of MOP100,000 each	100%	100%
Beshabar Trading Limited	Hong Kong	Hong Kong	Trading	100 ordinary shares of HK\$1 each	100%	100%
Darsawye Pty Ltd.	Australia	Australia	Property holding	12 shares of AUD1 each	100%	100%
Farthinghoe Enterprises Limited (note a)	BVI	BVI	Investment holding	3 ordinary shares of US\$1 each	100%	100%
Maxsun International Limited	Hong Kong	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each	51%	51%
# Wuhan Weiao Pharmaceuticals Co., Ltd.	PRC	PRC	Manufacturing and trading of pharmaceutical products	RMB18,000,000	95%	95%

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operations	Principal activities	Particulars of issued share capital/ paid up capital	Group's equity interest held	
					2003	2002
Indirect subsidiaries: (Continued)						
## Vital Pharmaceuticals (Sichuan) Co. Ltd. (formerly Sichuan Weiao Pharmacy Co., Ltd.) <i>(note b)</i>	PRC	PRC	Manufacturing and trading of pharmaceutical products	RMB25,000,000	100%	85%
Vitapharm Research Pty Ltd. <i>(note a)</i>	Australia	Australia	Research and development of biotechnology	20 ordinary shares of AUD1 each	100%	100%
## Vital (Sichuan) Biotech Co., Ltd.	PRC	PRC	Research and development of biotechnology	US\$1,400,000	100%	100%
Wide Triumph Limited	Hong Kong	Hong Kong	Management services	100 ordinary shares of HK\$1 each	100%	100%
#	<i>Equity joint ventures</i>					
##	<i>Wholly owned foreign enterprise</i>					

Notes:

- (a) On 23 January 2002, Yugofoil Holdings Limited ("Yugofoil"), a subsidiary of the Group, acquired the entire share capital of Farthinghoe Enterprises Limited ("Farthinghoe"), which directly holds a 100% interest in Vitapharm Research Pty Ltd, through a share exchange of Yugofoil's shares to Mr. Ko Sai Ying ("Mr. Ko"), Mr. Au Yeung Ping Yuen, Terence ("Mr. Au Yeung") and Mr. Liu Jin, James ("Mr. Liu"), shareholders of Farthinghoe. Mr. Ko, Mr. Au Yeung and Mr. Liu are Directors and initial management shareholders of the Company.
- (b) Equity interest of 15% in Vital Pharmaceuticals (Sichuan) Co. Ltd. was acquired by the Group during the year.

31. SUBSEQUENT EVENT

A placing and subscription agreement (the "Placing and Subscription Agreement") was entered into among the Company on 12 February 2004, Perfect Develop Holding Inc. ("Perfect Develop"), a substantial shareholder of the Company which then owned 48.71% interest in the Company, Kingsway Capital Limited, financial advisor, and Kingsway Financial Services Group Limited, placing agent ("Placing Agent"). Pursuant to the Placing and Subscription Agreement, the Placing Agent agreed to place 170,000,000 shares of the Company at HK\$0.72 per share for Perfect Develop and Perfect Develop agreed to subscribe for 170,000,000 shares of the Company at HK\$0.72 per share. The placing and subscription of shares were completed on 26 February 2004. Upon the completion of the placing and subscription of shares, the interest in the Company as held by Perfect Develop reduced to 43.16%.

The net proceeds raised from the placing and subscription of the Company's shares amounted to approximately HK\$119,000,000. The Company intends to use the proceeds for various pharmaceutical projects and working capital of the Group.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 2 March 2004.