

For the year ended December 31, 2003

11. PROPERTY, PLANT AND EQUIPMENT – continued

	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY			
COST			
At January 1, 2003	722	1,005	1,727
Additions	2,030	–	2,030
Disposals	(560)	–	(560)
	2,192	1,005	3,197
DEPRECIATION AND AMORTISATION			
At January 1, 2003	409	453	862
Provided for the year	221	200	421
Eliminated on disposals	(409)	–	(409)
	221	653	874
NET BOOK VALUE			
At December 31, 2003	1,971	352	2,323
At December 31, 2002	313	552	865

12. INVESTMENTS IN SUBSIDIARIES

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investment, at cost	895,244	763,445

Particulars of the Company's subsidiaries as at December 31, 2003 are set out in note 34.

13. AMOUNTS DUE FROM SUBSIDIARIES

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

For the year ended December 31, 2003

14. INTANGIBLE ASSETS

	Technical know-how	Development costs	Utility rights	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
COST				
At January 1, 2003	54,177	43,050	56,192	153,419
Additions	1,122	–	467	1,589
Written off	–	(22,144)	–	(22,144)
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At December 31, 2003	55,299	20,906	56,659	132,864
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AMORTISATION AND IMPAIRMENT				
At January 1, 2003	35,608	16,564	17,757	69,929
Provided for the year	5,418	2,709	5,643	13,770
Impairment	–	10,878	–	10,878
Eliminated on written off	–	(22,144)	–	(22,144)
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At December 31, 2003	41,026	8,007	23,400	72,433
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NET BOOK VALUE				
At December 31, 2003	<u>14,273</u>	<u>12,899</u>	<u>33,259</u>	<u>60,431</u>
At December 31, 2002	<u>18,569</u>	<u>26,486</u>	<u>38,435</u>	<u>83,490</u>

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

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

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

During the year, the directors of the Company reviewed the net recoverable amount of the Group's development costs in view of the current technological development and economic conditions. The technological development of certain drug manufacturing techniques have been prolonged and may no longer warrants future economic benefits adequate to support current capitalisation of the development costs. As a result, the carrying amount of the related development costs has been fully written off during the year.

For the year ended December 31, 2003

15. GOODWILL

THE GROUP

	<i>HK\$'000</i>
COST	61,842
At January 1, 2003	1,819
Addition	63,661
At December 31, 2003	63,661
 AMORTISATION	 1,546
At January 1, 2003	3,168
Provided for the year	4,714
At December 31, 2003	4,714
 NET BOOK VALUE	 58,947
At December 31, 2003	58,947
At December 31, 2002	60,296

Goodwill is amortised on a straight-line basis over its estimated useful life of 20 years.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	21,235	20,809

At December 31, 2003, 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.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2003

17. LOAN RECEIVABLE

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

	THE GROUP	
	2003	2002
	<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	655	1,450
	2,245	3,040
Less: Amount receivable within one year shown under current assets	(795)	(795)
Amount receivable after one year	1,450	2,245

18. INVENTORIES

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	62,226	53,055
Work in progress	84,051	81,983
Finished goods	145,577	139,898
	291,854	274,936

At the balance sheet date, all inventories are carried at cost.

19. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	325,490	279,985
91 to 180 days	24,222	26,938
181 to 365 days	629	608
	350,341	307,531
Other receivables	88,231	114,051
	438,572	421,582

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2003

20. PLEDGED BANK DEPOSITS

Included in pledged bank deposits were pledged deposits for acquisition of property, plant and equipment of HK\$48,494,000, which were classified in the balance sheet as non-current. The remaining balance represents deposits pledged by the Group to banks to secure short-term banking facilities granted to the Group and were classified as current assets.

21. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 to 90 days	260,909	255,920
91 to 180 days	27,572	34,167
181 to 365 days	18,075	27,263
More than 365 days	8,216	29,409
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	314,772	346,759
Other payables	166,319	113,646
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	481,091	460,405
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22. BANK LOANS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans	306,349	627,723	195,030	125,010
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Analysed as:				
Secured	75,030	125,010	75,030	125,010
Unsecured	231,319	502,713	120,000	-
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	306,349	627,723	195,030	125,010
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NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2003

22. BANK LOANS – continued

The bank loans are repayable as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year or on demand	161,299	543,338	49,980	49,980
Between one to two years	145,050	59,365	145,050	50,010
Between two to five years	–	25,020	–	25,020
	306,349	627,723	195,030	125,010
Less: Amount due within one year shown under current liabilities	(161,299)	(543,338)	(49,980)	(49,980)
Amount due after one year	145,050	84,385	145,050	75,030

23. LOANS FROM ULTIMATE HOLDING COMPANY

The loans are unsecured and are analysed as follows:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans from SPG:		
– interest bearing at prevailing market rate	93,545	–
– interest-free	8,045	–
	101,590	–

SPG will not demand repayment of the above loans within twelve months from the balance sheet date. At a result, the loans are classified as non-current liabilities.

For the year ended December 31, 2003

24. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At January 1, 2002	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 and 2003	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
– balance at January 1, 2002	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	1,502,212,661	150,221
– exercise of share options (note c)	35,912,000	3,591
	<u>1,538,124,661</u>	<u>153,812</u>
At December 31, 2003	<u>1,538,124,661</u>	<u>153,812</u>

Notes:

- (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.
- (c) During the year ended December 31, 2003, 2,608,000, 15,000,000 and 18,304,000 (2002: 22,174,000, nil and 20,480,000) shares options were exercised at a subscription price of HK\$0.67, HK\$0.62 and HK\$0.61 per share, respectively, resulting in the issue of 35,912,000 (2002: 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. 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, 2003, no shares options remained outstanding under the Scheme. At December 31, 2002, the number of shares 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 the 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 <i>HK\$</i>	Outstanding at 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2003
2.19.2000	8.20.2000 to 8.19.2003	0.67	7,826,000	(2,608,000)	(5,218,000)	-
3.27.2000	9.28.2000 to 9.27.2003	0.62	20,000,000	(15,000,000)	(5,000,000)	-
8.15.2001	2.16.2002 to 5.26.2004	0.61	24,304,000	(18,304,000)	(6,000,000)	-
			<u>52,130,000</u>	<u>(35,912,000)</u>	<u>(16,218,000)</u>	<u>-</u>

For the year ended December 31, 2003

25. SHARE OPTIONS – continued

Date of grant	Exercisable period	Exercise price <i>HK\$</i>	Outstanding at 1.1.2002	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2002
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>–</u>	<u>52,130,000</u>

No option was granted or cancelled during both years. The weighted average closing price of the shares on the dates on which the share options were exercised during the year was HK\$2.91 (2002: HK\$1.39).

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

Date of grant	Exercisable period	Exercise price <i>HK\$</i>	Outstanding at 1.1.2002 and 12.31.2002	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2003
3.27.2000	9.28.2000 to 9.27.2003	0.62	20,000,000	(15,000,000)	(5,000,000)	–
2.19.2000	8.20.2000 to 8.19.2003	0.67	3,914,000	(2,608,000)	(1,306,000)	–
8.15.2001	2.16.2002 to 5.26.2004	0.61	24,304,000	(18,304,000)	(6,000,000)	–
			<u>48,218,000</u>	<u>(35,912,000)</u>	<u>(12,306,000)</u>	<u>–</u>

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2003

26. RESERVES

	Share premium	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY			
At January 1, 2002	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)
Net profit for the year	–	143,301	143,301
Dividend paid	–	(44,656)	(44,656)
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At December 31, 2002	1,098,125	164,439	1,262,564
Exercise of share options	18,622	–	18,622
Share issue expenses	(20)	–	(20)
Net profit for the year	–	247,585	247,585
Dividends paid	–	(197,802)	(197,802)
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At December 31, 2003	<u>1,116,727</u>	<u>214,222</u>	<u>1,330,949</u>

The Company's reserves available for distribution to shareholders as at December 31, 2003 represent its accumulated profits of HK\$214,222,000 (2002: HK\$164,439,000).

27. ACQUISITION OF A SUBSIDIARY

On February 9, 2003, the Group acquired 100% of the issued share capital of Zhongqi Pharmaceutical Technology (Shijiazhuang) Company Limited. Details of this acquisition were set out in note 33.

The net assets of the subsidiary acquired were as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	12,290	190,365
Other receivables	6,001	–
Inventories	6,179	–
Bank balances and cash	1,858	10,268
Other payables	(9,078)	–
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	17,250	200,633
Goodwill arising on acquisition of a subsidiary	1,819	61,842
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	19,069	262,475
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Satisfied by:		
Cash paid on acquisition	17,250	–
Shares issued by the Company	–	260,743
Related expenses paid on acquisition	1,819	1,732
	<hr/>	<hr/>
	19,069	262,475
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