

For the year ended December 31, 2003

**27. ACQUISITION OF A SUBSIDIARY – continued**

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

	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash acquired	<b>1,858</b>	10,268
Cash paid on acquisition	<b>(19,069)</b>	(1,732)
	<hr/>	<hr/>
Net (outflow) inflow of cash and cash equivalents in connection with the acquisition of a subsidiary	<b><u>(17,211)</u></b>	<b><u>8,536</u></b>

The subsidiary acquired during the year ended December 31, 2003 did not have a material contribution to the net cash flows and results of the Group.

The subsidiary acquired during the year ended December 31, 2002 contributed approximately HK\$234,796,000 to the Group's turnover and HK\$31,403,000 to the Group's profit from operations.

**28. OPERATING LEASE COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments paid under operating lease during the year in respect of land and buildings	<b><u>2,922</u></b>	<b><u>4,547</u></b>

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:

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>2,240</b>	1,410	<b>836</b>	764
In the second to fifth year inclusive	<b>2,219</b>	734	<b>1,300</b>	–
Over five years	<b>684</b>	703	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	<b><u>5,143</u></b>	<b><u>2,847</u></b>	<b><u>2,136</u></b>	<b><u>764</u></b>

Operating lease payments represent payable by the Group for certain of its office and factory properties. Leases are negotiated and rentals are fixed for an average term of three years.

For the year ended December 31, 2003

**29. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Capital expenditure contracted but not provided for in the financial statements in respect of acquisition of property, plant and equipment	<u><b>233,474</b></u>	<u><b>62,309</b></u>

At the balance sheet date, the Company had capital expenditure in respect of investment in a subsidiary as follows:

	<b>THE COMPANY</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Capital investment in respect of capital contribution	<u><b>130,000</b></u>	<u><b>—</b></u>
Capital investment authorised but not contracted for	<u><b>250,000</b></u>	<u><b>—</b></u>

**30. CONTINGENT LIABILITIES**

The Group had no contingent liabilities at the balance sheet date.

At December 31, 2003, the Company had given a corporate guarantee of HK\$7,800,000 (2002: HK\$7,800,000) to a bank to secure general banking facilities granted to a subsidiary of the Company.

**31. PLEDGE OF ASSETS**

Details of the Group's pledge of assets are set out in note 20.

At the balance sheet date, the Company 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.

**32. 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.

**32. EMPLOYEE RETIREMENT BENEFITS SCHEMES – continued**

During both years and as at the balance sheet date, there were no significant forfeited contributions, which arose when employees left the retirement benefit scheme before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in future years.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit 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 payroll costs to the retirement benefit scheme 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. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. During the year, the contributions made by the PRC subsidiaries relating to the arrangement were approximately HK\$27,257,000 (2002: HK\$18,020,000).

**33. 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 Listing Rules. 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	
		2003 HK\$'000	2002 HK\$'000
SPG Group	Sale of finished goods (note a)	5,568	103,220
	Purchase of raw materials (note a)	38,964	19,609
	Service charges payable relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note b)	2,722	2,675
	Rental expenses (note c)	1,375	2,569

For the year ended December 31, 2003

33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

(I) CONNECTED PARTIES – continued

Name of company	Nature of transactions/ balances	THE GROUP	
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
SPG Group	Processing services charges (note d)	33,182	15,905
	Repairing charges (note e)	37	204
	Material processing charges (note e)	–	394
	Income from provision of technology consultancy services (note e)	175	–
	Management fee income (note f)	–	52
	Interest expenses on loan from ultimate holding company (note g)	980	3,158
	Acquisition of a subsidiary (note h)	17,250	260,743
	Purchase of property, plant and equipment (note i)	15,328	–
	Proceeds from disposal of property, plant and equipment (note j)	–	368
	Guarantee given by the SPG Group (note k)	150,000	150,000
	Balance due from (to) the SPG Group at December 31		
	– trade receivables	2,529	91,046
	– dividend payable	(26,111)	–
	– long-term loans (note g)	<u>(101,590)</u>	<u>–</u>

*For the year ended December 31, 2003*

33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

(I) CONNECTED PARTIES – continued

Name of company	Nature of transactions/ balances	THE COMPANY	
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
SPG Group	Balance due to the SPG Group at December 31 – dividend payable	<u>(26,111)</u>	<u>–</u>

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP	
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Huarong, a jointly controlled entity of the Group	Purchase of raw materials (note l)	37,772	36,652
	Provision of utility services by the Group (note m)	922	534
	Dividend income	6,122	5,239
	Income from provision of technology consultancy services (note e)	122	–
	Balance due from (to) Huarong at December 31		
	– dividend receivable	6,122	606
	– trade payables	(160)	(2,804)
	– non-trade receivables (note n)	<u>6,007</u>	<u>5,401</u>

*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) Rental expenses were paid in accordance with the tenancy agreements entered into by the Group and the SPG Group.

For the year ended December 31, 2003

**33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued**

**(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES – continued**

*Notes:*

- (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 agreement entered into by the Group and the SPG Group, the SPG Group paid management fee to the Group based on 2% of the actual energy costs incurred as handling charges.
- (g) Details of the loans are set out in note 23.
- (h) On February 19, 2003, the Company entered into an agreement with SPG and Shijiazhuang Pharmaceutical Group New Medicine Company Limited, a wholly-owned subsidiary of SPG, for the acquisition by the Company of the entire issued share capital of Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd. (“Zhongqi”, formerly known as Shijiazhuang Pharmaceutical Group Pharmaceutical Technology Development Company Limited) for a consideration of HK\$17,250,000. Zhongqi is a limited liability company established in the PRC and is engaged in research and development of pharmaceutical products. The acquisition was completed in June 2003. Details of this connected transaction were disclosed in a press announcement dated February 19, 2003.

Terms of the acquisition for the year ended December 31, 2002 are set out in note 24(b).

- (i) On July 7, 2003, the Group entered into an agreement with Shijiazhuang Municipal Second Pharmaceutical Factory, an associate of SPG, for the acquisition of production facilities including among others, machinery and equipment for the purpose of manufacture of pharmaceutical preparation products and bulk pharmaceutical products for a consideration of approximately HK\$15,241,000.
- (j) Property, plant and equipment was disposed of to the SPG Group at its net book value.
- (k) The guarantee was given to a bank to secure a bank loan granted to the Company.
- (l) The transactions were carried out with reference to the market prices.
- (m) The service fee paid in relation to the provision of utilities were based on the actual costs of the utilities incurred by Huarong.
- (n) The amounts are unsecured, interest-free and repayable on demand.

*For the year ended December 31, 2002*

**34. PARTICULARS OF SUBSIDIARIES**

Particulars of the Company's subsidiaries at December 31, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share/ registered capital	Percentage of nominal value of issued share capital held by the Company		Principal activity
				Directly %	Indirectly %	
China Nutraceuticals Limited	Hong Kong	Limited liability company	HK\$1,000	–	80	Inactive
Golden Wing Limited	Hong Kong	Limited liability company	HK\$3	100	–	Inactive
Hebei Zhongrun Pharmaceutical Co., Ltd.	PRC	Limited liability cooperative joint venture enterprise	RMB463,490,300	79.04	20.17	Manufacture and sale of pharmaceutical products
M2b.com.hk Limited	British Virgin Islands	Limited liability company	US\$2,500,000	–	90	Inactive
NBP Pharmaceutical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB120,000,000	100	–	Manufacture and sale of pharmaceutical products
Netcom Resources Limited	British Virgin Islands	Limited liability company	US\$1,000	100	–	Investment holding
Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Neimenggu) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	HK\$130,000,000*	100	–	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK\$2	100	–	Investment holding
Unity Pacific Limited	British Virgin Islands	Limited liability company	US\$1	100	–	Investment holding
Vitam Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	US\$5,270,000	100	–	Inactive
Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	US\$14,899,000	100	–	Manufacture and sale of pharmaceutical products

*For the year ended December 31, 2002*

**34. PARTICULARS OF SUBSIDIARIES – continued**

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share/ registered capital	Percentage of nominal value of issued share capital held by the Company		Principal activity
				Directly %	Indirectly %	
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB18,000,000	100	–	Manufacture and sale of pharmaceutical products
Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB216,000,000	100	–	Manufacture and sale of pharmaceutical products
Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprise with limited liability	RMB18,440,000	100	–	Provision of pharmaceutical research and development services

\* The amount represents registered capital not yet paid up as at December 31, 2003.

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