

Notes to the Accounts

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 Institute of Certified Public Accountants ("HKICPA"). 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (new "HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 nineteen 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.

Notes to the Accounts

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

Construction in progress comprises land use rights and buildings, plant and machinery on which construction and installation work has not been completed. Construction in progress is carried at cost which includes cost of acquisition of land use rights, development, construction and installation 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:

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

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) Interest in an associate

The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associate for the year. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate less any identified impairment loss.

The results of an associate are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interest in an associate is stated at cost, less any identified impairment loss.

(f) 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(f) Investments in securities (Continued)****(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.

(g) Inventories

Inventories which comprise raw 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.

(h) 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.

(i) Cash and cash equivalents

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

(j) 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.

(k) 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 and associates, 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.

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

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

(l) 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(m) 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(r) below.

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

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.

(o) 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(p) 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 and subsidies are recorded as assets of the Group at fair value at date of the grants and subsidies.

(q) 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.

(r) Revenue recognition

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Revenue from sales of technology and licence fee income for granting distribution rights to 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.

Subcontract manufacturing 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 sales and manufacturing of pharmaceutical products.

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

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of goods	336,725	277,420
Sales of technology	5,667	–
Licence fee income	–	2,419
Subcontract manufacturing income	1,028	945
	<hr/> 343,420	<hr/> 280,784
Other revenues		
Interest income	586	633
	<hr/> 344,006	<hr/> 281,417

Notes to the Accounts

2. REVENUES AND TURNOVER (Continued)

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

Neither the business segments of the sales of technology, licencing and subcontract manufacturing 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:

	2004 HK\$'000	2003 HK\$'000
Crediting		
Amortisation of negative goodwill (included in other operating expenses)	36	36
Exchange gain (included in other operating expenses)	51	4,092
Gain on disposal of investment securities and other investments (included in other operating expenses)	7	10
Grants and subsidies from government (net off against other operating expenses)	5,042	4,518
Charging		
Amortisation of intangible assets (included in other operating expenses)		
– goodwill	4,317	1,251
– patents	275	238
– development costs	501	77
Auditors' remuneration		
– audit services	1,410	1,247
– other services	550	–
Cost of inventories sold	102,046	76,866
Depreciation and amortisation of fixed assets	11,319	8,639
Listing expenses (<i>note</i>)	–	4,718
Loss on disposal of fixed assets	20	245
Operating lease rental expenses on land and buildings	2,755	1,891
Write-off of intangible assets	3,963	–
Provision for and write-off of inventories	559	519
Provision for trade receivables (included in other operating expenses)	1,131	314
Research and development costs (included in other operating expenses)	5,474	6,128
Staff costs (included Directors' emoluments) (<i>note 9</i>)	40,210	32,908

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.

Notes to the Accounts

4. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest expenses on:		
– bank loans and overdrafts	3,551	4,326
– other loans wholly repayable within five years	–	59
– discounted bills of exchange	1,336	969
Other incidental borrowing costs	301	314
Total borrowing costs incurred	5,188	5,668
Less: interest capitalised in construction in progress	(1,064)	(988)
Total borrowing costs charged to the consolidated profit and loss account	4,124	4,680

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is 4.0% (2003: 4.0%) per annum.

5. TAXATION

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

	2004 HK\$'000	2003 HK\$'000
Overseas income tax		
– current year charge	5,709	537
– underprovision in prior years	19	–
Taxation attributable to the Company and subsidiaries	5,728	537

Hong Kong profits tax has not been provided for in the accounts as there was no estimated assessable profit derived from both years.

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

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

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, certain subsidiaries operating in the PRC are entitled to exemption from income tax in the first two years from the first profit-making year, 50% reduction of income tax in the subsequent three years and thereafter, preferential treatments which are subject to the relevant law and regulations. One subsidiary was taxed at 7.5% (2003: exemption). Another subsidiary has incurred a loss and no income tax is payable for the year (2003: 7.5%). Other subsidiaries were either in loss-making position for the current and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the year and accordingly did not have any assessable income.

The 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.

Notes to the Accounts

5. TAXATION (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>37,893</u>	<u>71,062</u>
Calculated at an applicable tax rate	6,821	12,791
Income of subsidiaries under tax exemption and reduction	(9,365)	(17,927)
Effect of different tax rates in other countries	976	(349)
Income not subject to taxation	(33)	(1,622)
Expenses not deductible for taxation purposes	2,286	6,384
Utilisation of previously unrecognised tax losses	(552)	(49)
Tax losses not recognised	5,576	1,309
Underprovision for taxation in prior years	<u>19</u>	<u>–</u>
Taxation charge	<u>5,728</u>	<u>537</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\$11,647,000 (2003: HK\$39,705,000).

7. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend, paid, of HK0.5 cent (2003: HK1 cent) per ordinary share, with options of 1 scrip share for every 75 shares (2003: 45 shares)	7,496	12,775
Final dividend, proposed, of HK Nil cent (2003: HK1.5 cent per ordinary share, with options of 1 scrip share for every 55 shares)	–	22,382
	<u>7,496</u>	<u>35,157</u>
The dividends have been partially settled by scrip shares as follows:		
Interim	525	10,896
Final	N/A	1,354

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\$32,776,000 (2003: HK\$61,142,000).

The basic earnings per share is based on the weighted average number of 1,480,993,084 (2003: 1,265,733,938) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31 December 2004 is based on 1,486,685,939 (2003: 1,273,883,302) ordinary shares which are the weighted average number of 1,480,993,084 (2003: 1,265,733,938) ordinary shares in issue during the year plus the weighted average number of 5,692,855 (2003: 8,149,364) ordinary shares taking into account the effects of all dilutive potential ordinary shares.

Notes to the Accounts

9. STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Wages and salaries (including Directors' emoluments)	36,863	31,227
Retirement benefit costs	3,347	1,681
	<u>40,210</u>	<u>32,908</u>

The retirement benefit costs represent gross contributions by the Group to the schemes operated by the relevant authorities of the PRC and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). Contributions totalling HK\$75,000 payable to the Retirement Schemes as at 31 December 2004 (2003: HK\$54,000) 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 23 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:

	2004 HK\$'000	2003 HK\$'000
Fees	299	240
Salaries, allowances and benefits in kind	5,524	3,179
Discretionary bonuses	350	2,000
Retirement benefit costs	59	48
	<u>6,232</u>	<u>5,467</u>

Directors' fees of HK\$299,000 (2003: HK\$240,000) were paid to independent non-executive Directors during the year.

No discretionary management bonus was provided and paid to the directors in 2004 (2003: HK\$2,000,000).

During the year, no share options (2003: 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	
	2004	2003
Emoluments bands		
Nil to HK\$1,000,000	11	2
HK\$1,000,001 – HK\$1,500,000	1	3
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>12</u>	<u>6</u>

(b) Senior management's emoluments

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2004 include three (2003: three) 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:

	2004 HK\$'000	2003 HK\$'000
Directors	2,760	4,199
Employees	4,391	6,788
	<u>7,151</u>	<u>10,987</u>

Notes to the Accounts

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

- (c) Details of the emoluments paid by the Group to the two (2003: two) highest paid employees as mentioned in note 10(b) above are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	4,031	6,378
Discretionary bonuses	350	400
Retirement benefit costs	10	10
	4,391	6,788

The emoluments of the two (2003: two) highest paid employees fall in the following bands:

	Number of individuals	
	2004	2003
Emoluments bands		
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	2
	2	2

During the year, the two highest paid employees of the Group exercised 7,100,000 (2003: 13,200,000) share options granted by the Company. The exercise price of the share options of the Company was HK\$0.24 for 6,600,000 share options and HK\$0.51 for 500,000 share options respectively (2003: 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\$0.66 and HK\$0.72 respectively (2003: HK\$0.70). 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cost										
At 1 January	41,440	7,960	(182)	(182)	3,977	3,336	1,786	462	47,021	11,576
Additions	960	33,480	–	–	277	641	4,900	1,324	6,137	35,445
Written off	–	–	–	–	(2,831)	–	(2,642)	–	(5,473)	–
At 31 December	42,400	41,440	(182)	(182)	1,423	3,977	4,044	1,786	47,685	47,021
Accumulated amortisation										
At 1 January	3,463	2,212	(60)	(24)	1,395	1,157	164	87	4,962	3,432
Charge for the year	4,317	1,251	(36)	(36)	275	238	501	77	5,057	1,530
Eliminated on written off	–	–	–	–	(1,510)	–	–	–	(1,510)	–
At 31 December	7,780	3,463	(96)	(60)	160	1,395	665	164	8,509	4,962
Net book value										
At 31 December	34,620	37,977	(86)	(122)	1,263	2,582	3,379	1,622	39,176	42,059

Notes to the Accounts

11. INTANGIBLE ASSETS (Continued)**Group (Continued)**

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

The patents in 2003 included an amount of HK\$2,831,000 for the right in respect of knowledge knowhow and related manufacturing process of a pharmaceutical product acquired from Wuhan Institute of Virology, The Chinese Academy of Sciences ("Wuhan Institute of Virology"), an immediate holding company of the minority shareholder of a subsidiary, upon establishment of the subsidiary in 1996. This amount has been written off during the year as the knowledge knowhow and related manufacturing process are no longer in use. The patents also included the amounts of HK\$1,423,000 (2003: HK\$1,146,000) 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\$4,900,000 (2003: HK\$1,132,000) transferred from payments for pharmaceutical projects (note 17(b)). In which, HK\$2,642,000 development cost related to the production technology of a pharmaceutical product has been written off during the year.

Company

	Patents	
	2004 HK\$'000	2003 HK\$'000
Cost		
Addition during the year and at 31 December	33	—
Accumulated amortisation		
Charge for the year and at 31 December	1	—
Net book value		
At 31 December	32	—

12. FIXED ASSETS**Group**

	Land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
Cost							
At 1 January 2004	34,609	52,725	1,891	69,150	13,446	4,934	176,755
Acquisition of a subsidiary	—	—	—	—	671	16	687
Additions	10,221	45,548	1,115	1,238	6,434	1,849	66,405
Reclassification	12,704	(85,047)	146	72,203	—	(6)	—
Disposals	—	—	(1,679)	(106)	—	(283)	(2,068)
At 31 December 2004	57,534	13,226	1,473	142,485	20,551	6,510	241,779
Accumulated amortisation/ depreciation							
At 1 January 2004	797	—	1,842	9,398	3,033	1,778	16,848
Charge for the year	1,378	—	280	5,765	2,876	1,020	11,319
Reclassification	—	—	—	83	—	(83)	—
Written back upon disposals	—	—	(1,678)	(64)	—	(165)	(1,907)
At 31 December 2004	2,175	—	444	15,182	5,909	2,550	26,260
Net book value							
At 31 December 2004	55,359	13,226	1,029	127,303	14,642	3,960	215,519
At 31 December 2003	33,812	52,725	49	59,752	10,413	3,156	159,907

Notes to the Accounts

12. FIXED ASSETS (Continued)**Group** (Continued)

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

	Group	
	2004 HK\$'000	2003 HK\$'000
In Hong Kong:		
Long lease	9,651	-
Outside Hong Kong:		
Freehold	9,127	9,486
Long lease	23,789	12,866
Medium-term lease	12,792	11,460
	55,359	33,812

Company

	Furniture, fixtures and office equipment HK\$'000
Cost	
At 1 January 2004	109
Additions	66
Disposals	(12)
At 31 December 2004	163
Accumulated depreciation	
At 1 January 2004	30
Charge for the year	25
Written back upon disposals	(1)
At 31 December 2004	54
Net book value	
At 31 December 2004	109
At 31 December 2003	79

Notes:

- (a) At 31 December 2004, the net book value of the Group's fixed assets pledged as security for the Group's short-term bank loans amounted to approximately HK\$25,856,000 (2003: HK\$46,341,000).
- (b) At 31 December 2004, construction in progress included accumulated interest expenses capitalised of approximately HK\$143,000 (2003: HK\$768,000).

Notes to the Accounts

13. SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	55,333	53,046
Amounts due from subsidiaries	273,210	136,020
Amounts due to subsidiaries	(31,053)	(1,007)
	<u>297,490</u>	<u>188,059</u>

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 34 to the accounts.

14. INTEREST IN AN ASSOCIATE

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	642	–

Details of the associate of the Group are set out in note 35 to the accounts.

15. INVESTMENT SECURITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cost				
Unlisted investments in guaranteed funds	4,056	4,056	4,056	4,056
Unlisted investments in certificates of deposits	1,560	1,560	1,560	1,560
Unlisted equity securities	15,825	–	10,162	–
	<u>21,441</u>	<u>5,616</u>	<u>15,778</u>	<u>5,616</u>

Investment securities of HK\$5,616,000 (2003: HK\$5,616,000) were pledged for long-term bank loans of the Group.

16. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials		
– in transit	6,767	17,602
– on hand	9,137	6,590
Work in progress	2,907	3,800
Finished goods	22,530	9,943
Packing materials	1,882	735
	<u>43,223</u>	<u>38,670</u>

At 31 December 2004 and 2003, the carrying amount of inventories that were carried at cost amounted to HK\$43,223,000 (2003: HK\$38,670,000).

Notes to the Accounts

17. RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables (note a)	113,060	58,030	–	–
Bills receivables	8,683	–	–	–
Prepayments and deposits	5,860	11,384	1,121	1,468
Payments for pharmaceutical projects (note b)	7,152	7,103	–	2,830
Other receivables	8,868	4,627	16	–
Receivable from the former minority shareholder of a subsidiary	–	146	–	–
	<u>143,623</u>	<u>81,290</u>	<u>1,137</u>	<u>4,298</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 180 days which are subject to periodic review by management.

At 31 December 2004, the age analysis of the trade receivables net of provision for doubtful debts was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	35,274	25,212
31-60 days	38,196	14,625
61-90 days	25,731	7,589
Over 90 days	13,859	10,604
	<u>113,060</u>	<u>58,030</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.

18. OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at fair value	–	151

19. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 31 December 2004 included deposits of approximately HK\$14,575,000 (2003: HK\$6,027,000) pledged as collateral for trust receipt loans and bank overdraft facilities.

Bank balances and cash of HK\$3,164,000 (2003: HK\$3,160,000) were pledged for the long-term bank loans of the Group.

Included in bank balances and cash of the Group as at 31 December 2004 was a deposit of HK\$137,000 (2003: HK\$471,000) pledged as collateral for credit facility granted to a subsidiary by a bank.

Bank balances and cash of the Group as at 31 December 2004 included amounts of approximately HK\$31,544,000 (2003: HK\$34,831,000) denominated in Renminbi not freely convertible to other currencies.

Notes to the Accounts

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	32,711	20,185	–	–
Accrued charges and other payables	25,566	20,395	1,510	5,931
	<u>58,277</u>	<u>40,580</u>	<u>1,510</u>	<u>5,931</u>

At 31 December 2004, the age analysis of the trade payables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	7,997	18,720
31-60 days	3,099	1,151
61-90 days	334	59
Over 90 days	21,281	255
	<u>32,711</u>	<u>20,185</u>

21. AMOUNT DUE TO MINORITY SHAREHOLDER OF A SUBSIDIARY

Amount payable was unsecured, interest free and fully settled during the year.

22. SHORT-TERM BANK LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Short-term bank loans		
– secured	9,434	6,920
– unsecured	95,718	68,717
Trust receipt loans – secured (<i>note 19</i>)	7,908	–
	<u>113,060</u>	<u>75,637</u>

23. SHARE CAPITAL

Authorised:

	2004			2003		
	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 and 31 December	50,000,000,000	0.01	500,000	50,000,000,000	0.01	500,000

Notes to the Accounts

23. SHARE CAPITAL (Continued)

Issued and fully paid:

	2004			2003		
	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	1,314,876,127	0.01	13,149	1,227,347,268	0.01	12,273
Shares allotted and issued for partial settlement of consideration in respect of acquisition of a subsidiary (<i>note a</i>)	20,508,613	0.01	205	–	–	–
Issue of shares by placement (<i>note b</i>)	170,000,000	0.01	1,700	–	–	–
Issue of shares on exercise of share options	12,770,000	0.01	128	13,200,000	0.01	132
Issue of shares for scrip dividends	3,043,640	0.01	30	74,328,859	0.01	744
At 31 December	1,521,198,380	0.01	15,212	1,314,876,127	0.01	13,149

Notes:

- (a) On 21 September 2004, the Company allotted and issued 20,508,613 ordinary shares of HK\$0.01 each at the base price of HK\$0.46 per share to settle the third phase of the consideration for the acquisition of 15% equity interest in a subsidiary.
- (b) On 26 February 2004, the Company issued 170,000,000 new shares of HK\$0.01 each by way of placing at HK\$0.72 per share for cash.

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.

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

No options were granted by the Company during the year.

Notes to the Accounts

23. SHARE CAPITAL (Continued)

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

Category	Exercise price HK\$	Outstanding at 1 January 2004	Exercised during the year	Outstanding at 31 December 2004	Vested percentage as at 31 December 2004	Vested percentage as at 31 December 2003
Directors of certain subsidiaries	0.24	6,600,000	(6,600,000)	–	N/A	100%
	0.51	12,405,000	–	12,405,000	100%	0%
Employees of the Group	0.39	21,100,000	(2,740,000)	18,360,000	74.6%	55.4%
	0.51	15,095,000	(2,680,000)	12,415,000	100%	0%
Others	0.39	8,900,000	(250,000)	8,650,000	66.3%	38.8%
	0.51	1,000,000	(500,000)	500,000	100%	0%
		<u>65,100,000</u>	<u>(12,770,000)</u>	<u>52,330,000</u>		

(b) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Number of options
15/1/2004	0.24	0.66	6,600,000
15/1/2004	0.39	0.66	180,000
15/1/2004	0.51	0.66	500,000
15/3/2004	0.39	0.83	1,290,000
15/3/2004	0.51	0.83	500,000
15/4/2004	0.39	0.72	510,000
15/4/2004	0.51	0.72	2,000,000
17/5/2004	0.39	0.51	1,010,000
17/5/2004	0.51	0.51	180,000
			<u>12,770,000</u>

Notes to the Accounts

24. 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 2003	83,690	30	1,231	616	78,719	164,286
Exchange translation differences	-	(494)	-	-	-	(494)
Transfer of reserves (<i>note a</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	-	-	-	-	(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
At 1 January 2004	106,901	(464)	8,492	616	107,552	223,097
Transfer of reserves (<i>note a</i>)	-	-	7,341	-	(7,341)	-
Premium on issue of shares on exercise of share options	4,244	-	-	-	-	4,244
Profit for the year	-	-	-	-	32,776	32,776
2003 final dividends	-	-	-	-	(22,409)	(22,409)
2004 interim dividends (<i>note 7</i>)	-	-	-	-	(7,496)	(7,496)
Premium on issue of shares for scrip dividends	1,849	-	-	-	-	1,849
Premium on issue of shares for partial settlement of consideration in respect of acquisition of a subsidiary	9,229	-	-	-	-	9,229
Premium on issue of shares by placement	120,700	-	-	-	-	120,700
Share issue expenses	(3,838)	-	-	-	-	(3,838)
At 31 December 2004	239,085	(464)	15,833	616	103,082	358,152
Representing:						
Company and subsidiaries	239,085	(464)	15,833	616	103,194	358,264
Associate	-	-	-	-	(112)	(112)
	239,085	(464)	15,833	616	103,082	358,152

Notes to the Accounts

24. RESERVES (Continued)**Company**

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
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	–	(12,273)	(12,273)
2003 interim dividends (note 7)	–	(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	<u>159,936</u>	<u>27,039</u>	<u>186,975</u>
Representing:			
Reserves	159,936	4,657	164,593
2003 final dividend proposed (note 7)	–	22,382	22,382
	<u>159,936</u>	<u>27,039</u>	<u>186,975</u>
At 1 January 2004	159,936	27,039	186,975
Premium on issue of shares on exercise of share options	4,244	–	4,244
Profit for the year	–	11,647	11,647
2003 final dividends	–	(22,409)	(22,409)
2004 interim dividends (note 7)	–	(7,496)	(7,496)
Premium on issue of shares for scrip dividends	1,849	–	1,849
Premium on issue of shares for partial settlement of consideration in respect of acquisition of a subsidiary	9,229	–	9,229
Premium on issue of shares by placement	120,700	–	120,700
Share issue expenses	(3,838)	–	(3,838)
	<u>292,120</u>	<u>8,781</u>	<u>300,901</u>
At 31 December 2004	<u>292,120</u>	<u>8,781</u>	<u>300,901</u>
Representing:			
Reserves	292,120	8,781	300,901

Note:

- (a) Subsidiaries in the PRC have appropriated 10% of the profit to reserve fund. The reserve fund is required to be retained in the accounts of the subsidiaries for specific purposes.
- (b) 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 2004, 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\$300,901,000 (2003: HK\$186,975,000).

Notes to the Accounts

25. LONG-TERM LIABILITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans – secured (<i>note a</i>)	9,700	14,820
Other payable (<i>note b</i>)	9,434	28,302
	19,134	43,122
Current portion of long-term liabilities		
– bank loans	(3,120)	(3,120)
– other payable (<i>note b</i>)	(9,434)	(18,868)
	(12,554)	(21,988)
	6,580	21,134

Notes:

- (a) At 31 December 2004, the Group's long-term bank loans which were wholly repayable within five years were repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	3,120	3,120
In the second year	3,120	3,120
In the third to fifth years inclusive	3,460	8,580
	9,700	14,820

The long-term bank loans as at 31 December 2004 and 2003 were secured by investment securities and bank balances and cash 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 2005 by way of the Company's share or cash. Subsequent to the balance sheet date, the Company issues and allots 20,508,613 ordinary shares of HK\$0.01 each at the base price of HK\$0.46 per share to settle the final phase of the consideration.

26. 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\$66,186,000 (2003: HK\$18,012,000), of which HK\$19,262,000 (2003: HK\$8,515,000) would expire within the coming five years up to year 2009 (2003: year 2008).

Notes to the Accounts

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations

	2004 HK\$'000	2003 HK\$'000
Operating profit	42,129	75,742
Interest income	(586)	(633)
Depreciation and amortisation	11,319	8,639
Gain on disposal of investment securities and other investment	(7)	(10)
Loss on disposal of fixed assets	20	245
Write-off of intangible assets	3,963	–
Amortisation of intangible assets (net)	5,057	1,530
Operating profit before working capital changes	61,895	85,513
Increase in inventories	(4,150)	(16,737)
Increase in receivables and prepayments	(49,267)	(3,405)
Increase in trade and other payables	8,247	20,000
Increase in value added tax receivable	(3,348)	–
(Decrease)/increase in amount due to minority shareholder of a subsidiary	(228)	130
Decrease in value added tax payable	(1,734)	(2,928)
Cash generated from operations	11,415	82,573

(b) Analysis of changes in financing during the year

	Dividend payable HK\$'000	Share capital (including share premium) HK\$'000	Minority interests HK\$'000	Long-term bank loans HK\$'000	Short-term bank loans HK\$'000	Trust receipt loans HK\$'000	Other loan HK\$'000
At 1 January 2003	–	95,963	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 27 (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)	3,168	(5,276)	2,425	25,637	(3,715)	(1,887)
At 31 December 2003	–	120,050	1,803	14,820	75,637	–	–

Notes to the Accounts

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

	Dividend payable HK\$'000	Share capital (including share premium) 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 2004	–	120,050	1,803	14,820	75,637	–
Minority interests' in share of profits less losses of subsidiaries	–	–	(611)	–	–	–
Shares allotted and issued for acquisition of a subsidiary	–	9,434	–	–	–	–
Acquisition of a subsidiary (note 28)	–	–	8,794	–	–	–
Dividends	29,905	–	–	–	–	–
Issue of shares for scrip dividends	(1,879)	1,879	–	–	–	–
Cash inflow/(outflow) from financing activities	(28,026)	122,934	2,288	(5,120)	29,515	7,908
At 31 December 2004	–	254,297	12,274	9,700	105,152	7,908

(c) Purchase of additional equity interest in a subsidiary

	2003 HK\$'000
Share of net assets acquired	13,836
Goodwill (note 11)	33,480
	<u>47,316</u>
Satisfied by:	
Cash and/or shares of the Company	<u>47,316</u>

(d) Major non-cash transactions

During the year, the Company allotted and issued 20,508,613 ordinary shares of HK\$0.01 each at the base price of HK\$0.46 per share to settle the third phase of the consideration amounted to HK\$9,434,000 for the acquisition of 15% equity interest in a subsidiary.

(e) Analysis of balances of cash and cash equivalents

	2004 HK\$'000	2003 HK\$'000
Bank balances and cash – unpledged	<u>92,229</u>	<u>62,105</u>

Notes to the Accounts

28. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired a 60% of the registered capital of 四川維奧三江製藥有限公司 at a consideration of HK\$14,151,000 in which HK\$4,717,000 was unpaid and included in commitments (note 30a). This acquisition has been accounted for by the acquisition method of accounting and is analysed as follows:—

	HK\$'000
NET ASSETS ACQUIRED:	
Fixed assets	687
Inventories	403
Receivables and prepayments	14,647
Bank balances and cash	1,547
Trade and other payables	(16)
Minority interests	(8,794)
	<u>8,474</u>
SATISFIED BY:	
Goodwill	(960)
Cash	9,434
	<u>8,474</u>
Net cash outflow arising on acquisition:	
Cash consideration	(9,434)
Bank balances and cash acquired	1,547
	<u>(7,887)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(7,887)</u>

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

29. 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:

	2004 HK\$'000	2003 HK\$'000
Raw materials purchased from a related company (<i>note a</i>)	(55,825)	(40,600)
Rental expense paid to Wuhan Institute of Virology (<i>note b</i>)	—	(226)
Rental expense to a related company (<i>note c</i>)	(78)	(156)

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

Notes to the Accounts

29. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(e) Pursuant to a trademark licence agreement dated 14 August 2002 entered into between Beshabar (Macao Commercial Offshore) Limited ("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.

(f) 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).

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

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

(h) At 31 December 2004, short term bank loans of approximately HK\$9,434,000 (2003: HK\$9,434,000) of Sichuan Pharmaceutical were guaranteed by Wuhan Weiao Pharmaceuticals Co., Ltd. ("Wuhan Weiao"), a 95% owned subsidiary of the Group. At 31 December 2003, short term bank loans amounted to HK\$12,264,000 of Wuhan Weiao were guaranteed by Sichuan Pharmaceutical.

(i) The loan and advance amounted to HK\$13,915,000 were lent to the Former Minority Shareholder of Sichuan Pharmaceutical were fully repaid in 2003.

(j) 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 2004 were as follows:

	2004 HK\$'000	2003 HK\$'000
Wuhan Weiao	30,998	17,878
Sino Metro Development Limited	793	-
維奧達(北京)生物技術有限公司	613	-

(k) Pursuant to an agreement dated 8 July 2003 entered into between the Group and Qingdao Growful Vital Pharmaceutical Co. Ltd. ("Qingdao Growful"), a company of which the Group has 19.9% equity interest, technology income of RMB7,500,000 (equivalent to approximately HK\$7,075,000) was received by the Group from this company for transfer of a patent which registered in the PRC.

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

	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for		
– fixed assets	2,641	23,758
Contracted but not provided for		
– fixed assets	20,185	32,491
– investments	19,139	7,075
	39,324	39,566
	41,965	63,324

At 31 December 2004, the Group had outstanding capital contribution to the subsidiaries, 四川維奧三江製藥有限公司 and Sino Metro Development Limited.

Notes to the Accounts

30. COMMITMENTS (Continued)**(b) Commitments for the development of new products and/or technologies**

	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for	–	27,473
Contracted but not provided for	573	4,840
	<u>573</u>	<u>32,313</u>

(c) Commitments under operating leases

At 31 December 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Land and buildings		
Not later than one year	2,689	1,334
Later than one year and not later than five years	1,696	1,733
Later than five years	–	468
	<u>4,385</u>	<u>3,535</u>

31. CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees for utilised banking facilities of subsidiaries	–	–	103,892	61,838

32. PLEDGE OF ASSETS

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

	2004 HK\$'000	2003 HK\$'000
Fixed assets	25,856	46,341
Investment securities	5,616	5,616
Bank balances and cash	17,876	9,658
	<u>49,348</u>	<u>61,615</u>

33. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, the Company allotted and issued 20,508,613 ordinary shares of HK\$0.01 each at the base price of HK\$0.46 per share to settle the final phase of the consideration for the acquisition of 15% equity interest in a subsidiary.
- (b) Subsequent to the balance sheet date, the Group disposed a property with net book value of HK\$9,651,000 at a consideration of HK\$15,000,000.

Notes to the Accounts

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2004 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	
					2004	2003
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%
Vital BioTech (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%	100%
Yugofoil Holdings Limited	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%
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%
## Vital Pharmaceuticals (Sichuan) Co. Ltd.	PRC	PRC	Manufacturing and trading of pharmaceutical products	RMB25,000,000	100%	100%
Vitapharm Research Pty Ltd.	Australia	Australia	Research and development of biotechnology	20 ordinary shares of AUD1 each	100%	100%

Notes to the Accounts

34. 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	
					2004	2003
## 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%
# 四川維奧三江製藥有限公司	PRC	PRC	Manufacturing and trading of pharmaceutical products	RMB20,000,000	60%	—

Equity joint ventures## *Wholly owned foreign enterprise***35. PARTICULARS OF AN ASSOCIATE**

Name	Place of establishment/operation	Principal activity	Group's equity interest held	
			2004	2003
# 成都出口監管倉庫有限公司	PRC	Provision of logistic services	40%	—

Equity joint venture