

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

For the year ended December 31, 2005

18. INVESTMENTS IN SUBSIDIARIES

	2005	2004
	HK\$'000	HK\$'000
Unlisted investment, at cost	<u>1,202,052</u>	<u>1,161,737</u>

Particulars of the Company's subsidiaries as at December 31, 2005 are set out in note 40.

19. AMOUNTS DUE FROM SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The amounts are unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balances approximates their fair value.

20. INTANGIBLE ASSETS

	Technical know-how <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Utility rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST				
At January 1, 2004	55,299	20,906	56,659	132,864
Additions	9,760	–	12,164	21,924
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2004	65,059	20,906	68,823	154,788
Exchange adjustments	1,494	480	1,581	3,555
Additions	6,521	–	–	6,521
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2005	73,074	21,386	70,404	164,864
	<hr/>	<hr/>	<hr/>	<hr/>
AMORTISATION				
At January 1, 2004	41,026	8,007	23,400	72,433
Charge for the year	5,290	842	6,273	12,405
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2004	46,316	8,849	29,673	84,838
Exchange adjustments	855	553	800	2,208
Charge for the year	7,127	2,536	6,922	16,585
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2005	54,298	11,938	37,395	103,631
	<hr/>	<hr/>	<hr/>	<hr/>
CARRYING VALUES				
At December 31, 2005	<u>18,776</u>	<u>9,448</u>	<u>33,009</u>	<u>61,233</u>
At December 31, 2004	<u>18,743</u>	<u>12,057</u>	<u>39,150</u>	<u>69,950</u>

20. INTANGIBLE ASSETS – continued

Included in development costs, an amount of HK\$3,682,000 (2004: HK\$3,600,000) was internally generated while all other intangible assets of the Group were acquired from independent third parties.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Technical know-how	5 to 10 years
Development costs	3 to 5 years from date of commencement of commercial operation
Utility rights	10 years

Utility rights represent up-front non-refundable payment to secure the rights to use electricity in the PRC over 10 years.

21. GOODWILL

	<i>HK\$'000</i>
COST	
At January 1, 2004 and 2005	63,661
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(7,897)
	55,764
At December 31, 2005	55,764
AMORTISATION	
At January 1, 2004	4,714
Charge for the year	3,183
	7,897
At January 1, 2005	7,897
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(7,897)
	–
At December 31, 2005	–
CARRYING VALUES	
At December 31, 2005	55,764
At December 31, 2004	55,764

Particulars regarding impairment testing on goodwill are disclosed in note 22.

Until December 31, 2004, goodwill had been amortised on a straight-line basis over its estimated useful life of 20 years.

22. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, the Group's goodwill as set out in note 21 has been allocated to a CGU, representing the business segment of finished drugs of the Group.

During the year ended December 31, 2005, management of the Group determines that there is no impairment of the above-mentioned CGU containing the goodwill. The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 4.13%, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount.

23. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>24,086</u>	<u>24,654</u>

At December 31, 2005, 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.

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	<u>66,494</u>	<u>90,259</u>
Non-current assets	<u>111,546</u>	<u>65,954</u>
Current liabilities	<u>(106,882)</u>	<u>(77,752)</u>
Non-current liabilities	<u>(24,913)</u>	<u>(31,081)</u>
Income	<u>16,041</u>	<u>22,419</u>
Expenses	<u>18,240</u>	<u>15,581</u>

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

For the year ended December 31, 2005

24. LOAN RECEIVABLE

The loan is unsecured, carries at an interest rate of 6.435% (2004: 6.435%) per annum and is repayable as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within one year	670	795
Between one to two years	–	655
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	670	1,450
Less: Amount receivable within one year shown under current assets	(670)	(795)
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Amount receivable after one year	<u>–</u>	<u>655</u>

The directors consider that the carrying amount of the Group's loan receivable approximates its fair value.

25. PLEDGED BANK DEPOSITS

At December 31, 2005, pledged bank deposits classified under non-current assets of HK\$2,428,000 (2004: HK\$9,416,000) were pledged to banks to secure banking facilities granted to the Group for the acquisition of property, plant and equipment.

At December 31, 2004, pledged bank deposits classified under current assets of HK\$7,282,000 were pledged to banks to secure banking facilities granted to the Group.

The directors consider that the carrying amount of the Group's pledged bank deposits approximates to its fair value.

26. INVENTORIES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	82,754	84,049
Work in progress	199,186	175,030
Finished goods	474,113	193,776
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	756,053	452,855
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

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

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2005

27. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	353,927	334,482
91 to 180 days	24,436	20,719
181 to 365 days	829	1,952
	<hr/>	<hr/>
	379,192	357,153
Other receivables	133,795	56,476
	<hr/>	<hr/>
	512,987	413,629

The directors consider that the carrying amount of the Group's trade and other receivables approximates their fair value.

28. CONNECTED AND RELATED PARTY DISCLOSURES

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	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
The SPG Group	Sale of finished goods (note a)	–	2,467
	Sale of steam (note a)	4,897	–
	Purchase of raw materials (note a)	158,948	44,338
	Rental expenses (note b)	3,350	1,835
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note c)	–	1,349

For the year ended December 31, 2005

28. CONNECTED AND RELATED PARTY DISCLOSURES – continued

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

Name of company	Nature of transactions/ balances	THE GROUP	
		2005 HK\$'000	2004 HK\$'000
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note c)	502	1,589
	Income from provision of technology consultancy services (note i)	19	45
	Income from leasing of property, plant and equipment (note i)	183	–
	Service charges relating to a construction project (note i)	–	748
Huarong, a jointly controlled entity of the Group	Sales of finished goods (note a)	3,259	371
	Purchase of raw materials (note a)	33,039	29,719
	Income from provision of technology consultancy services (note i)	461	216
	Provision of utility services by the Group (note j)	7,339	2,307
	Balance due from (to) Huarong at December 31		
	– dividend receivable	6,122	6,122
	– other receivables (note h)	10,925	10,684
	– trade payables (note h)	<u>(3,107)</u>	<u>(4,414)</u>

(III) OTHER STATE-OWNED ENTITIES IN THE PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to the followings:

- lending and deposit taking;
- taking and placing of inter-bank balances;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

28. CONNECTED AND RELATED PARTY DISCLOSURES – continued

(III) OTHER STATE-OWNED ENTITIES IN THE PRC – continued

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationship, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors as key management of the Group during the year was as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	10,088	9,050
Post-employment benefits	567	243
	10,655	9,293
	10,655	9,293

The above remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes:

- (a) The transactions were carried out with reference to the market prices.
- (b) Rental expenses were paid in accordance with the tenancy agreements entered into between the Group and the SPG Group.
- (c) 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 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.
- (d) For the year ended December 31, 2004, pursuant to the services agreement entered into between 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) Details of the loans are set out in note 31.
- (f) For the year ended December 31, 2004, the Group entered into an agreement with Shijiazhuang Municipal Second Pharmaceutical Factory, an associate of SPG for the acquisition of property and land for the purpose of manufacture of pharmaceutical preparation products and bulk pharmaceutical products for a consideration of HK\$5,376,000.

28. CONNECTED AND RELATED PARTY DISCLOSURES – continued

- (g) For the year ended December 31, 2004, a guarantee was given by SPG to a bank to secure a bank loan granted to the Company and the guarantee was released upon the full repayment of the loan during the year of 2005.
- (h) At the balance sheet date, the amount was aged within one year. The directors consider that the carrying amount of the balance approximates its fair value.
- (i) The transactions were based on terms agreed by both parties.
- (j) The transactions were based on the actual cost of utilities incurred by the Group.
- (k) Ouyi was a former associate company of SPG and the relationship ceased on July 31, 2005. Only the transactions with Ouyi prior to July 31, 2005 were considered as related party transactions.

29. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	383,495	313,984
91 to 180 days	69,611	42,197
181 to 365 days	26,432	18,727
More than 365 days	19,395	18,358
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	498,933	393,266
Other payables	475,823	468,074
	<hr/>	<hr/>
	974,756	861,340
	<hr/> <hr/>	<hr/> <hr/>

The directors consider that the carrying amount of the Group's trade and other payables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2005

30. BANK LOANS

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	<u>1,435,550</u>	<u>1,067,222</u>	<u>670,000</u>	<u>675,020</u>
Analysed as:				
Secured	–	25,020	–	25,020
Unsecured	<u>1,435,550</u>	<u>1,042,202</u>	<u>670,000</u>	<u>650,000</u>
	<u>1,435,550</u>	<u>1,067,222</u>	<u>670,000</u>	<u>675,020</u>

The bank loans are repayable as follows:

On demand or within one year	344,804	249,813	96,000	185,020
More than one year, but not exceeding two years	758,746	487,409	242,000	160,000
More than two years, but not more than five years	<u>332,000</u>	<u>330,000</u>	<u>332,000</u>	<u>330,000</u>
	1,435,550	1,067,222	670,000	675,020
Less: Amount due within one year shown under current liabilities	<u>(344,804)</u>	<u>(249,813)</u>	<u>(96,000)</u>	<u>(185,020)</u>
	<u>1,090,746</u>	<u>817,409</u>	<u>574,000</u>	<u>490,000</u>

The fair value of the above bank loans at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate RMB bank loans	765,550	392,202	–	–
Floating-rate HKD bank loans	<u>670,000</u>	<u>675,020</u>	<u>670,000</u>	<u>675,020</u>
	<u>1,435,550</u>	<u>1,067,222</u>	<u>670,000</u>	<u>675,020</u>

The interest rates of the Group's fixed-rate RMB bank loans and floating-rate HKD bank loans are 4.8% to 5.8% and 1.0% to 5.2%, respectively.

At the balance sheet date, the Group and the Company had undrawn loan facilities of HK\$80,000,000 (2004: Nil) in respect of floating-rate HKD bank loans expiring in April 2006.

For the year ended December 31, 2005

31. LOANS FROM ULTIMATE HOLDING COMPANY

The loans are unsecured and are analysed as follows:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans from SPG:		
– interest bearing at the rate of 3.78% per annum	47,847	46,773
– interest-free	7,641	8,045
	<u>55,488</u>	<u>54,818</u>

The directors consider that the carrying amount of loans from ultimate holding company approximates their fair value.

At December 31, 2005, the fair value of the interest-free portion of loans from SPG of HK\$7,641,000 was determined based on the present value of the estimated future cash outflows discounted using the effective interest rate of 3.78%.

Since SPG agrees not to demand repayment of the above loans within twelve months from the balance sheet date, the loans are classified as non-current liabilities.

32. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At December 31, 2004 and 2005	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At December 31, 2004 and 2005	<u>1,538,124,661</u>	<u>153,812</u>

33. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted on July 6, 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors.

33. SHARE OPTIONS – continued

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme (ie 153,812,466 shares, representing 10% of the issued share capital of the Company as at the date of the annual report). The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceed 0.1% of the total number of shares in issue or have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK\$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

34. RESERVES

	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
At January 1, 2004	1,116,727	214,222	1,330,949
Profit for the year	–	67,729	67,729
Dividends paid	–	(107,669)	(107,669)
	1,116,727	174,282	1,291,009
At December 31, 2004	1,116,727	174,282	1,291,009
Profit for the year	–	13,616	13,616
	1,116,727	187,898	1,304,625
At December 31, 2005	1,116,727	187,898	1,304,625

The Company's reserves available for distribution to shareholders as at December 31, 2005 represent its retained profits of HK\$187,898,000 (2004: HK\$174,282,000).

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

For the year ended December 31, 2005

35. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments paid under operating leases during the year in respect of land and buildings	<u>6,835</u>	<u>2,855</u>

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:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	8,400	4,085	770	1,291
In the second to fifth year inclusive	10,264	4,123	–	473
Over five years	339	1,104	–	–
	<u>19,003</u>	<u>9,312</u>	<u>770</u>	<u>1,764</u>

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

36. CAPITAL COMMITMENTS

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

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of		
– property, plant and equipment	7,867	339,758
– intangible assets	3,568	–
	<u>11,435</u>	<u>339,758</u>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<u>40,450</u>	<u>–</u>

At December 31, 2004, the Company also had capital commitments in respect of capital investment in its subsidiaries of HK\$88,835,000.