

For the year ended December 31, 2005

37. CONTINGENT LIABILITIES

- (i) As disclosed in the press announcement of the Company dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in antitrust complaints filed in The United States of America (the "United States"). These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the antitrust complaints filed in the United States. Up to the date of this report, three of the antitrust complaints have been served on the Company and the subsidiary.

The directors of Company are of the view that the allegations in the antitrust complaints are without merit and, the directors of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisors to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

- (ii) At December 31, 2004, the Company had given a corporate guarantee of HK\$25,820,000 to banks to secure general banking facilities granted to certain subsidiaries of the Company.

38. PLEDGE OF ASSETS

At December 31, 2005, the Group's bills receivable of HK\$3,828,000 was pledged to a bank to secure banking facilities granted to a subsidiary of the Company. Such pledge was subsequently released upon the repayment of the loan facilities in January 2006. Details of the other pledge of assets are set out in note 25.

At December 31, 2004, the Company pledged all the equity interests of its wholly-owned subsidiary, Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. to a bank to secure a bank loan granted to the Company and the pledge was released during the year as a result of full repayment of the bank loan.

39. 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. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

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 retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. 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 of the Company relating to the arrangement were HK\$40,016,000 (2004: HK\$36,153,000).

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40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at December 31, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered 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
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd.	PRC	Limited liability cooperative joint venture enterprise	RMB463,490,300	99.21	–	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	–	Manufacture and sales of pharmaceutical products
Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Neimenggu) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB135,000,000	100	–	Manufacture and sales of pharmaceutical products
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
Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	US\$20,169,000	100	–	Manufacture and sale of pharmaceutical products

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40. 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 capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB59,400,000	100	–	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB216,000,000	100	–	Manufacture and sale of pharmaceutical products
Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,440,000	100	–	Provision of pharmaceutical research and development services
Zhongqi Pharmaceutical Technology(S) PTE. Ltd.	Singapore	Private company limited by shares	S\$2	100	–	Inactive
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB50,000,000	100	–	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Hebei Zhongrun Huanbao Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB50,000,000	–	85	Sewage treatment
Neimenggu Zhongxingyuan Sewage Treatment Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,000,000	80.42	–	Sewage treatment

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

41. POST BALANCE SHEET EVENT

Subsequent to December 31, 2005, the Company was informed that the Department of Commerce, Government of India has initiated anti-dumping investigation concerning imports of Penicillin-G originating in or exported from the PRC. Two subsidiaries of the Company were informed to provide information for the investigation so as to determine the existence, degree and effect of alleged dumping of the above-mentioned product. Based on the results of investigation, the relevant authority in India would recommend the amount of anti-dumping duty, which if levied would be adequate to remove the injury to the domestic industry. The Group has appointed legal advisors to advise them in the investigation and the directors of the Company are of the view that the outcome of the investigation cannot be estimated with certainty at this stage.