Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is incorporated in Cayman Islands as an exempted company with limited liabilities. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the "Group").

The Group are principally engaged in research and development, selling and manufacturing of pharmaceutical products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective as at 31 December 2006. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK (IFRIC) – Interpretation ("INT") 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK (IFRIC) – INT 8	Scope of HKFRS 2[4]
HK (IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK (IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK (IFRIC) – INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill (net of cumulative amortisation as at 31 December 2005) is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(c) Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Patents

Cost incurred on the acquisition of patents are capitalised in the consolidated 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.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Intangible assets *(Continued)*

Impairment (Continued)

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction-in-progress comprises buildings and plant and machinery on which construction and installation work has not been completed. Construction-in-progress is carried at cost less any recognised impairment loss which includes costs 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 property, plant and equipment and depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is dereognised.

(f) Land use rights

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated income statement over the period of the rights using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held-for-trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured as cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(i) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

(j) Impairment losses (other than goodwill and intangible assets (see the accounting policy in respect of goodwill above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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.

Subcontract manufacturing income is recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Operating lease rental income is recognised on a straight-line basis over the period of the relevant lease terms.

(l) Equity settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference 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 realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange translation reserve.

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other assets are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see accounting policies in respect of borrowing costs).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Retirement benefit costs

Payments to state-managed retirement benefit scheme and the defined contribution schemes are charged as expense when employees have rendered service entitling them to the contributions.

(q) Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense/are reported separately as "other operating income".

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the financial information is disclosed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Amortisation of development costs

Development costs are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group re-assesses the useful life of the development costs and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, the carrying amount of goodwill was approximately HK$30,396,000. Details of impairment testing on goodwill are set out in note 19a.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, trade and other receivables, trade and other payables, bank borrowings and finance leases obligations. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Fair value interest rate risk

The Group exposed to fair value interest rate risk through the fixed interest rate bank loans.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Credit risk

The Group's principal financial assets are trade and other receivables and bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's exposure to liquidity risk is minimal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. TURNOVER AND OTHER OPERATING INCOME

The Group are principally engaged in research and development, selling and manufacturing of pharmaceutical products.

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

	2006	2005
	HK$'000	HK$'000
Turnover		
Sales of goods	**487,147**	446,219
Subcontract manufacturing income	**–**	218
	487,147	446,437
Other operating income		
Interest income	**744**	871
Research and development income	**–**	206
Government subsidies income	**3,154**	1,952
Exchange gain	**4,399**	4,172
Gain on deemed acquisition of a subsidiary	**–**	152
Gain on disposal of property, plant and equipment	**–**	5,429
Gain on disposal of a subsidiary	**81**	–
Gain on deemed disposal of a subsidiary	**76**	–
Gain on disposal of held-for-trading investments	**107**	–
Gain on disposal of intangible assets	**585**	–
Gain on fair value changes of held-for-trading investment	**44**	–
Recovery of allowance for bad and doubtful debts	**170**	61
Discount arising from acquisition of additional interest in a subsidiary	**–**	1,578
Sundry income	**174**	49
	9,534	14,470
Total revenues	**496,681**	460,907

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 People's Republic of China (the "PRC").

Neither the business segments of the subcontract manufacturing businesses nor the geographical segment in other country are of a sufficient size to be reported separately.

7. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest expenses on:		
– bank borrowings and overdrafts wholly repayable within five years	**8,397**	8,277
– obligations under finance leases	**141**	86
– discounted bills of exchange	**4,024**	2,495
– bank borrowings not wholly repayable within five years	**213**	–
Other incidental borrowing costs	**426**	284
Total borrowing costs charged to the consolidated income statement	**13,201**	11,142

8. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Overseas income tax		
– current	**11,580**	7,241
– overprovision in prior years	**(1,664)**	(1,704)
	9,916	5,537

Hong Kong Profits Tax has not been provided for in the consolidated financial statements 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"). The subsidiary had 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 and recorded as tax recoverable as at 31 December 2006 and 2005.

The Group had 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 directors of the Company believes that the subsidiary 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.

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8. INCOME TAX EXPENSE *(Continued)*

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 regulation. One subsidiary was taxed at 10.5% (2005: 7.5%). Another subsidiary has incurred a loss and no income tax is payable for the year (2005: Nil). 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.

The tax charges for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	47,016	26,480
Tax at applicable tax rate	8,463	4,766
Effect of tax exemption granted to a Macao subsidiary	(5,578)	(593)
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	(6,981)	(8,888)
Tax effect of income not subject to tax	(842)	(1,200)
Tax effect of expenses not deductible for tax purposes	9,492	5,948
Utilisation of previously unrecognised tax losses	(112)	–
Tax effect of unrecognised tax losses	7,138	7,208
Overprovision in prior years	(1,664)	(1,704)
Tax charges for the year	9,916	5,537

9. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging:		
Amortisation of intangible assets		
– development costs	2,351	1,255
– patents	–	104
Amortisation of prepaid lease payments on land use rights	649	537
Auditors' remuneration	1,513	1,410
Cost of inventories sold	166,812	150,776
Depreciation of property, plant and equipment	18,139	16,655
Impairment loss recognised in respect of goodwill	–	4,480
Impairment loss recognised in respect of intangible assets	–	1,550
Impairment losses recognised in respect of available-for-sale investments	2,864	12,961
Impairment loss recognised in respect of assets classified as held for sale	–	581
Impairment loss recognised in respect of payments for pharmaceutical projects *(note 21)*	17,538	–
Loss on deemed acquisition of a subsidiary	6	–
Loss on disposal of property, plant and equipment	1,822	240
Operating lease rental on land and buildings	2,544	4,247
Research and development costs	2,203	2,123
Staff costs (including directors' emoluments) *(note 12)*	34,643	36,797
Write down of inventories	5,078	5,953

10. DIVIDENDS

During the year ended 31 December 2005, the Company declared and paid interim dividend of HK1.0 cent per ordinary share amounting to HK$15,417,000 (2006: Nil).

The final dividend of HK1.0 cent (2005: Nil) per share has been recommended by the directors of the Company and is subject to approval by the shareholders in annual general meeting.

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11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to the equity holders of the Company of approximately HK$37,743,000 (2005: HK$21,649,000).

The basic earnings per share is based on the weighted average number of 1,541,706,993 (2005: 1,540,358,481) ordinary shares in issue during the year.

The diluted earnings per share was same as the basic earnings per share because the exercise price of the Company's share options was higher than the average market price for shares for both years ended 31 December 2006 and 2005.

12. STAFF COSTS

	2006	2005
	HK$'000	HK$'000
Wages and salaries (including directors' emoluments)	**32,256**	31,426
Retirement benefit schemes contribution	**1,215**	1,846
Share-based payments	**1,172**	3,525
	34,643	36,797

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 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.

The retirement benefit schemes contribution 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$18,710 payable to the Retirement Schemes as at 31 December 2006 (2005: HK$81,000) 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 30.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2005: nine) directors were as follows:

For the year ended 31 December 2006

		Other emoluments				
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonuses HK$'000	Retirement benefit schemes contribution HK$'000	Share-based payments HK$'000	Total HK$'000
Executive directors:						
Mr. Tao Lung	–	917	720	12	421	2,070
Mr. Liu James Jin	–	920	720	12	–	1,652
Mr. Huang Jianming	–	1,322	720	40	–	2,082
Mr. Jin Wei *(Note 1)*	–	35	–	–	–	35
Mr. Shen Songqing	–	920	720	–	–	1,640
Mr. Xu Xiaofan	–	920	720	–	420	2,060
Independent non-executive directors:						
Mr. Lee Kwong Yiu	240	–	–	–	42	282
Mr. Lui Tin Nang	240	–	–	–	42	282
Mr. Lo Wa Kei, Roy *(Note 2)*	192	–	–	–	–	192
Mr. Chong Cha Hwa *(Note 3)*	48	–	–	–	–	48
	720	5,034	3,600	64	925	10,343

Notes:

1. Resigned on 18 January 2006.

2. Resigned on 19 October 2006.

3. Appointed on 19 October 2006.

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13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2005

		Other emoluments				
	Fees	Salaries, allowances and other benefits	Discretionary bonuses	Retirement benefit schemes contribution	Share-based payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:						
Mr. Tao Lung	–	720	79	12	758	1,569
Mr. Liu James Jin	–	720	79	12	–	811
Mr. Huang Jianming	–	707	79	–	–	786
Mr. Jin Wei	–	720	79	–	253	1,052
Mr. Shen Songqing	–	720	79	–	–	799
Mr. Xu Xiaofan	–	720	79	–	758	1,557
Independent non-executive directors:						
Mr. Lee Kwong Yiu	240	–	–	–	76	316
Mr. Lui Tin Nang	240	–	–	–	76	316
Mr. Lo Wa Kei, Roy	240	–	–	–	76	316
	720	4,307	474	24	1,997	7,522

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, all (2005: three) were directors of the Company whose emoluments are set out in the above. For the year ended 31 December 2005, the emoluments of the two highest paid individuals were as follows:

	HK$'000
Salaries, allowances and other benefits	2,402
Retirement benefit schemes contribution	20
Share-based payments	909
	3,331

For the year ended 31 December 2005, the emoluments of the two highest paid employees fall in the following band:

	Number of individuals
Emoluments band	
HK$1,500,001 – HK$3,000,000	2

(c) Except for HK$501,000 paid to Mr. Ko Sai Ying, a former director of the Group for loss of office which is included in staff costs during the year ended 31 December 2005, no emoluments have been paid by the Group to other directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2006 and 2005. No directors waived or agreed to waive any emoluments during the two years ended 31 December 2006 and 2005.

Notes to the Consolidated Financial Statements

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14. INTANGIBLE ASSETS

	Patents	Development costs	Total
	HK$'000	HK$'000	HK$'000
COST			
At 1 January 2005	1,423	4,044	5,467
Exchange realignment	–	68	68
Additions	391	6,151	6,542
At 31 December 2005	1,814	10,263	12,077
Exchange realignment	–	391	391
Additions	–	2,550	2,550
Disposals	(1,814)	–	(1,814)
At 31 December 2006	**–**	**13,204**	**13,204**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2005	160	665	825
Exchange realignment	–	10	10
Charge for the year	104	1,255	1,359
Impairment loss recognised in the year	1,550	–	1,550
At 31 December 2005	1,814	1,930	3,744
Exchange realignment	–	67	67
Charge for the year	–	2,351	2,351
Eliminated on disposals	(1,814)	–	(1,814)
At 31 December 2006	**–**	**4,348**	**4,348**
CARRYING VALUES			
At 31 December 2006	**–**	**8,856**	**8,856**
At 31 December 2005	–	8,333	8,333

The above intangible assets have definite useful lives and are amortised on a straight-line basis over five to fifteen years.

(a) The directors of the Company had reviewed the carrying values of the Group's intangible assets as at 31 December 2005. The directors of the Company considered that it is unlikely that the patents have any future value in use and therefore the carrying amount of these patents in the amount of HK$1,550,000 were fully impaired.

(b) The patents as at 31 December 2006 included the amounts of HK$1,814,000 (2005: HK$1,814,000) paid for registration of certain patents in certain countries were disposed in 2006.

(c) Development costs mainly represented payments for development of the production technology of new products. Additions during the year ended 31 December 2006 included amounts of HK$2,550,000 (2005: HK$6,151,000) transferred from payments for pharmaceutical projects.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements 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 2005	34,778	13,226	1,473	142,485	20,551	6,510	219,023
Exchange realignment	77	145	12	2,857	367	86	3,544
Reclassification	3,482	(11,384)	–	7,899	–	3	–
Transfer to prepaid lease payments on land use rights	–	(3,722)	–	–	–	–	(3,722)
Acquired on acquisition of a subsidiary	–	–	–	–	167	37	204
Additions	315	33,528	–	1,906	8,836	1,051	45,636
Reclassified as held for sale	(9,842)	–	–	(5,150)	–	(1,014)	(16,006)
Disposals	(9,857)	–	–	(511)	(1,174)	(17)	(11,559)
At 31 December 2005	18,953	31,793	1,485	149,486	28,747	6,656	237,120
Exchange realignment	767	1,211	14	5,889	971	195	9,047
Reclassification	–	(790)	–	656	–	134	–
Additions	31,445	17,708	3,012	7,512	149	908	60,734
Eliminated on deemed disposal/ disposal of subsidiaries	–	–	–	–	–	(105)	(105)
Disposals	–	–	(762)	(14)	(8,344)	(26)	(9,146)
At 31 December 2006	51,165	49,922	3,749	163,529	21,523	7,762	297,650
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2005	1,254	–	444	15,182	5,909	2,550	25,339
Exchange realignment	3	–	6	248	103	31	391
Charge for the year	905	–	332	9,775	4,352	1,291	16,655
Reclassified as held for sale	(1,232)	–	–	(2,948)	–	(664)	(4,844)
Eliminated on disposals	(247)	–	–	(126)	(854)	(6)	(1,233)
At 31 December 2005	683	–	782	22,131	9,510	3,202	36,308
Exchange realignment	18	–	13	894	329	87	1,341
Charge for the year	1,344	–	123	10,840	4,547	1,285	18,139
Eliminated on deemed disposal/ disposal of subsidiaries	–	–	–	–	–	(42)	(42)
Eliminated on disposals	–	–	(288)	(4)	(3,907)	(11)	(4,210)
At 31 December 2006	2,045	–	630	33,861	10,479	4,521	51,536
CARRYING VALUES							
At 31 December 2006	49,120	49,922	3,119	129,668	11,044	3,241	246,114
At 31 December 2005	18,270	31,793	703	127,355	19,237	3,454	200,812

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15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying values of properties shown above comprises:

	2006 HK$'000	2005 HK$'000
Land in Hong Kong:		
Long lease	13,756	–
Medium-term lease	16,193	–
Land outside Hong Kong:		
Long lease	10,449	10,668
Medium-term lease	8,722	7,602
	49,120	18,270

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 40 years
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%

Notes:

(a) At 31 December 2006, the carrying values of the Group's property, plant and equipment pledged as security for the banking facilities granted to the Group amounted to approximately HK$47,592,000 (2005: HK$25,649,000).

(b) The carrying values of motor vehicles of approximately HK$11,044,000 includes an amount of approximately HK$1,297,000 (2005: HK$1,567,000) in respect of assets held under finance leases.

16. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2006	2005
	HK$'000	HK$'000
The Group's prepaid lease payments on land use rights comprise:		
Leasehold land in the PRC:		
Long lease	13,235	12,919
Medium-term lease	19,406	19,091
	32,641	32,010
Analysed for reporting purposes as:		
Current assets	625	595
Non-current assets	32,016	31,415
	32,641	32,010

At 31 December 2006, the carrying values of the Group's prepaid lease payments on land use rights pledged as security for the banking facilities granted to the Group amounted to approximately HK$12,988,000 (2005: Nil).

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17. INTEREST IN AN ASSOCIATE

	2006 HK$'000	2005 HK$'000
Cost of investment in unlisted associate in the PRC	–	754
Share of post-acquisition losses and exchange realignment	–	(212)
Consideration of acquisition of a subsidiary *(Note 32)*	–	(542)
	–	–

The Company held 40% equity interest in 成都出口監管倉庫有限公司 ("監管倉"), which was an equity joint venture company established in the PRC and engaged in provision of logistic services in the PRC. During the year ended 31 December 2005, the Group acquired an additional 45% equity interest in 監管倉 which then became a non-wholly owned subsidiary of the Group.

The summarised financial information in respect of the Group's associate for the year ended 31 December 2005 was set out below:

	At 30/10/2005 HK$'000
Total assets	–
Total liabilities	–
Net assets	–
Group's share of net assets of an associate	–

	1/1/2005 to 30/10/2005 HK$'000
Revenue	184
Loss for the period	(282)
Group's share of result of an associate for the period	(113)

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2006 HK$'000	2005 HK$'000
Unlisted investments in guaranteed funds, at fair value	3,824	3,696
Unlisted investments in certificates of deposits, at fair value	738	1,494
Unlisted equity securities, at cost *(notes a and b)*	17,234	17,234
Less: Impairment loss recognised *(notes b and c)*	(17,234)	(14,370)
	4,562	8,054

	2006 HK$'000	2005 HK$'000
Analysed for reporting purposes as:		
Current assets	–	1,494
Non-current assets	4,562	6,560
	4,562	8,054

Notes:

(a) The above unlisted equity securities represent investments in private entities incorporated in the PRC and Malaysia.

(b) The above unlisted investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(c) The directors of the Company have reviewed the carrying values of the unlisted equity securities as at 31 December 2006 and consider that in light of the recurring operating losses of these investments and the current market conditions, impairment losses of approximately HK$2,864,000 (2005: HK$14,370,000) has been recognised during the year ended 31 December 2006. The directors of the Company are of the opinion that the impairment is made based on their best estimation with reference to the market situation and circumstances of the equity securities.

(d) At 31 December 2006, available-for-sale investments of approximately HK$3,824,000 (2005: HK$5,190,000) were pledged to secure banking facilities granted to the Group.

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19. GOODWILL

	HK$'000
COST	
At 1 January 2005	42,400
Arising on acquisition of a subsidiary	256
Elimination of accumulated amortisation upon the application of HKFRS 3	(7,780)
At 31 December 2005 and 31 December 2006	34,876
ACCUMULATED AMORTISATION	
At 1 January 2005	7,780
Elimination of accumulated amortisation upon the application of HKFRS 3	(7,780)
At 31 December 2005 and 31 December 2006	–
IMPAIRMENT	
At 1 January 2005	–
Impairment loss recognised for the year	4,480
At 31 December 2005 and 31 December 2006	4,480
CARRYING VALUES	
At 31 December 2006	30,396
At 31 December 2005	30,396

Particulars regarding impairment testing on goodwill are disclosed in Note 19a.

During the year ended 31 December 2005, the management of the Group prepared profit forecasts and cash flow forecasts (the "Forecasts") in respect of Wuhan Weiao Pharmaceuticals Co., Ltd. ("Wuhan Weiao"), 維奧（成都）製藥有限公司 (formerly known as "四川維奧三江製藥有限公司")（"維奧成都"）and 監管倉. The directors of the Company are of the opinion that based on the Forecasts, the recoverable amounts of the goodwill arising from acquisition of these subsidiaries do not exceed their carrying amount in the consolidated balance sheet, therefore full impairment losses of HK$4,480,000 were recognised.

19a. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill has been arising from the acquisition of a subsidiary, Vital Pharmaceuticals (Sichuan) Co. Ltd. ("Vital Sichuan").

During the year ended 31 December 2006, the management of the Group prepared profit forecast and cash flow forecast (the "Forecast") in respect of the Vital Sichuan. The Forecast based on financial budgets approved by the management covering a period of 5 years and a discount rate of 6%. The cash flows beyond the 1-year period are extrapolated using a steady 8% growth rate. This growth rate is based on the relevant industry growth rate forecasts and does not exceed the average long-term growth rate for the relevant industry. The Forecast during the budget period are based on the budgeted gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for the market development and past experience, and the management believes that the budgeted gross margins are reasonable. The directors of the Company are of the opinion, based on the Forecast, that the recoverable amount exceeds its carrying amount in the consolidated balance sheet and no impairment loss is necessary.

20. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials		
– in transit	**–**	8,854
– on hand	**7,887**	14,035
Work in progress	**26,356**	4,927
Finished goods	**30,343**	26,366
Packing materials	**3,672**	2,002
	68,258	56,184

Included in the above were raw materials and finished goods of approximately HK$3,759,000 (2005: Nil) and HK$305,000 (2005: Nil), respectively carried at net realisable values.

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21. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	HK$'000
Trade and bills receivables *(note a)*	149,250	180,778
Prepayments and deposits	10,165	3,518
Payments for pharmaceutical projects *(note b)*	19,178	20,615
Other receivables	3,760	7,971
	182,353	212,882
Less: Allowance for bad and doubtful debts	(1,430)	(1,572)
Impairment loss recognised for payments for pharmaceutical projects *(note c)*	(17,538)	–
	163,385	211,310

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 the balance sheet date, the aging analysis of the trade and bills receivables net of allowance for bad and doubtful debts was as follows:

	2006	2005
	HK$'000	HK$'000
Within 30 days	58,847	63,933
31-60 days	40,447	43,067
61-90 days	38,397	55,133
Over 90 days	10,129	17,073
	147,820	179,206

(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 14) in accordance with the Group's accounting policy as set out in note 3(d) above.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) The directors of the Company reviewed the carrying values of the payments for pharmaceutical projects as at 31 December 2006 and consider that in light of the current new drugs policies in the PRC and the current market conditions, the Group has terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore impairment loss of approximately HK$17,538,000 (2005: Nil) has been recognised.

(d) The fair values of the Group's trade and other receivables at the balance sheet date approximated to the corresponding carrying amounts.

22. HELD-FOR-TRADING INVESTMENT (OTHER THAN DERIVATIVES)

	2006	2005
	HK$'000	HK$'000
Held-for-trading investment include:		
Unlisted investment in guaranteed funds, at fair value	**544**	–

23. BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group in respect of bills and letter of credit facilities and are therefore classified as current assets. The deposits carry fixed interest rate ranging from 2.60% to 2.86% (2005: 1.8% to 3.0%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The fair values of the pledged bank deposits and bank balances at the balance sheet date approximated to the corresponding carrying amounts.

24. ASSETS CLASSIFIED AS HELD FOR SALE

At 31 December 2005, assets classified as held for sale represented the property, plant and equipment to be disposed in 2006. The net carrying amount of the relevant assets were expected to exceed the net proceeds of disposal and accordingly, impairment loss approximated HK$581,000 has been recognised. The recognition for impairment loss reflects the adjustment required to measure these assets at fair value.

The property, plant and equipment were disposed of on 19 July 2006.

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For the year ended 31 December 2006

25. TRADE AND OTHER PAYABLES

	2006 HK$'000	2005 HK$'000
Trade and bills payables	10,706	28,392
Accrued charges and other payables	78,669	37,527
	89,375	65,919

At the balance sheet date, the aging analysis of the trade and bills payables were as follows:

	2006 HK$'000	2005 HK$'000
Within 30 days	4,307	9,779
31-60 days	3,569	1,603
61-90 days	573	1,121
Over 90 days	2,257	15,889
	10,706	28,392

The fair values of the Group's trade and other payables at the balance sheet date approximated to the corresponding carrying amounts.

26. OBLIGATIONS UNDER FINANCE LEASES

The lease terms are five years. For the year ended 31 December 2006, the average effective borrowing rate was 9% (2005: 9%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**394**	394	**270**	259
In more than one year but not more than two years	**394**	394	**281**	269
In more than two years but not more than three years	**394**	394	**293**	281
In more than three years but not more than four years	**474**	394	**446**	293
In more than four years but not more than five years	**–**	471	**–**	442
	1,656	2,047	**1,290**	1,544
Less: Future finance charges	**(366)**	(503)	**–**	–
Present value of lease obligations	**1,290**	1,544	**1,290**	1,544
Less: Amount due within one year shown under current liabilities			**(270)**	(259)
Amount due after one year			**1,020**	1,285

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Finance leases are denominated in Hong Kong dollars and Australian dollars.

The directors of the Company consider that the carrying amounts of the obligations under finance leases at the balance sheet date approximated to their fair values.

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27. BANK BORROWINGS

	2006 HK$'000	2005 HK$'000
Bank loans	**154,411**	150,970
Analysed as:		
Secured bank loans	**51,119**	16,728
Unsecured bank loans	**103,292**	134,242
	154,411	150,970

The above amounts bear interest at prevailing market rates and are repayable as follow:

	2006 HK$'000	2005 HK$'000
On demand or within one year	**100,520**	100,292
More than one year but not exceeding two years	**48,570**	2,588
More than two years but not more than five years	**1,904**	48,090
Over five years	**3,417**	–
	154,411	150,970
Less: Amount due within one year shown under current liabilities	**(100,520)**	(100,292)
Amount due after one year	**53,891**	50,678

At 31 December 2006, bank borrowings of approximately HK$144,358,000 and HK$10,053,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 5.30% to 6.91% per annum and the floating-rate borrowings carry interest at Hong Kong Interbank Offered Rate plus 3% per annum.

At 31 December 2005, bank borrowings of approximately HK$130,964,000 and HK$20,006,000 were fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carried interest ranging from 4.2% to 7.254% per annum and the floating-rate borrowings carried interest at Hong Kong Interbank Offered Rate plus 2% to 3% per annum.

27. BANK BORROWINGS *(Continued)*

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	RMB '000	United States Dollars '000
As at 31 December 2006	48,000	2,500
As at 31 December 2005	108,000	–

During the year ended 31 December 2006, the Group obtained new loans in the amount of approximately HK$196,815,000 (2005: HK$143,858,000). These loans carry interest at prevailing market rates and will be repayable varying from 2007 to 2016.

The directors of the Company consider that the carrying amounts of bank borrowings at the balance sheet date approximated to their fair values.

28. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2005	1,521,198,380	15,212
Issue of shares for settlement of final consideration in respect of acquisition of a subsidiary *(note a)*	20,508,613	205
At 31 December 2005 and 31 December 2006	1,541,706,993	15,417

Notes:

(a) On 25 January 2005, 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) All the new shares issued during the year ended 31 December 2005 rank pari passu with the existing shares in all respects.

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29. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Accumulated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2005 and 31 December 2005	–	–	–
Charge (credit) to consolidated income statement	1,143	(1,143)	–
At 31 December 2006	1,143	(1,143)	–

At the balance sheet date, the Group has unused tax losses of approximately HK$147,586,000 (2005: HK$105,690,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$6,531,000 (2005: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses HK$141,055,000 (2005: HK$105,690,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses of approximately HK$37,879,000 (2005: HK$30,617,000) that will expire in 2010. Other losses may be carried forward indefinitely.

30. 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 Board of Directors of the Company may, at their discretion, grant option to the eligible participant including any employees, any non-executive directors, directors, suppliers, customers, advisors, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholder in a general meeting of the Company. Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

30. SHARE OPTION SCHEME *(Continued)*

At 31 December 2006, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Share Option Scheme of the Company was 56,740,000, representing 3.7% of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

Total consideration received from eligible participants for taking up the options granted during the year ended 31 December 2005 was HK$22 (2006: Nil).

The exercise price of the share options is determined by the Board of Directors providing that the exercise price of the share options shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The 2003 Share Option Scheme will remain in force for a period of ten years commencing on 23 July 2003.

First phase:

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

Second phase:

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.

Notes to the Consolidated Financial Statements

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30. SHARE OPTION SCHEME *(Continued)*

Third phase:

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

Forth phase:

On 12 September 2005, options were granted for an aggregate of 69,800,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2003 Share Option Scheme at HK$0.23 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK$0.23 per share. Those who were granted with the options can exercise their rights in multiple periods starting from 1 January 2006 to 6 February 2012 as follows:

From 1 January 2006 to 6 February 2012 – approximately 34,900,000 shares
From 1 January 2007 to 6 February 2012 – approximately 34,900,000 shares

30. SHARE OPTION SCHEME *(Continued)*

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

	Date of grant	Outstanding at 1 January 2005	Granted during the year	Cancelled during the year	Outstanding at 31 December 2005	Cancelled during the year	Outstanding at 31 December 2006	Exercise price per share HK$
Directors:								
Mr. Tao Lung	12 September 2005	–	15,000,000	–	15,000,000	–	15,000,000	0.23
Mr. Xu Xiaofan	12 September 2005	–	15,000,000	–	15,000,000	–	15,000,000	0.23
Mr. Jin Wei (Resigned on 18 January 2006)	12 September 2005	–	5,000,000	–	5,000,000	(5,000,000)	–	0.23
Independent non-executive directors:								
Mr. Lui Tin Nang	12 September 2005	–	1,500,000	–	1,500,000	–	1,500,000	0.23
Mr. Lee Kwong Yiu	12 September 2005	–	1,500,000	–	1,500,000	–	1,500,000	0.23
Mr. Lo Wa Kei, Roy (Resigned on 19 October 2006)	12 September 2005	–	1,500,000	–	1,500,000	(1,500,000)	–	0.23
Employees	21 June 2002	18,360,000	–	(15,970,000)	2,390,000	(2,060,000)	330,000	0.39
	29 September 2003	24,820,000	–	(5,260,000)	19,560,000	(6,300,000)	13,260,000	0.51
	12 September 2005	–	12,300,000	–	12,300,000	(3,500,000)	8,800,000	0.23
Connected person	12 September 2005	–	18,000,000	–	18,000,000	(18,000,000)	–	0.23
Other eligible participants	21 June 2002	8,650,000	–	–	8,650,000	(7,800,000)	850,000	0.39
	29 September 2003	500,000	–	–	500,000	–	500,000	0.51
		52,330,000	69,800,000	(21,230,000)	100,900,000	(44,160,000)	56,740,000	
Exercisable at the end of the year					31,100,000		35,840,000	

During the year ended 31 December 2005, options were granted on 12 September 2005. The estimated fair value of the options granted on is approximately HK$5,875,000.

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30. SHARE OPTION SCHEME *(Continued)*

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

Share price on grant date	HK$0.23
Exercise price	HK$0.23
Expected volatility	34.35%
Expected life	6.5 years
Risk-free rate	3.28%
Expected dividend yield	8.7%

Expected volatility was determined using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

The risk-free interest rate is using the average Hong Kong Exchange Fund Notes for the past two years.

The Group recognised the total expense of approximately HK$1,172,000 for the year ended 31 December 2006 (2005: HK$3,525,000) in relation to the share options granted by the Company in 2005 and became vested during the year ended 31 December 2006.

During the year ended 31 December 2006, the number of share options granted expected to be vested has been reduced to reflect the forfeiture of options granted prior to completion of vesting period and accordingly, the share option expense has been adjusted. At each balance date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

Where share options have been forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will continue to be held in the share options reserve.

31. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, the Group acquired certain property, plant and equipment amounted to HK$6,500,000 is unsettled and included in other payables as at 31 December 2006.

During the year ended 31 December 2005, the Group entered into the following non-cash transactions:

(a) The Company allotted and issued 20,518,613 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 amounted to HK$9,434,000 for the acquisition of equity interest in a subsidiary.

(b) The Group entered into finance leases arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$1,718,000.

32. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2005, the Group acquired a further 45% of the registered share capital of 監管倉 at a consideration of approximately HK$865,000 (equivalent to approximately RMB900,000). This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$256,000.

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 December 2005 had no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount and fair value
	HK$'000
NET ASSETS ACQUIRED:	
Property, plant and equipment	204
Trade and other receivables	34
Bank balances and cash	1,162
Trade and other payables	(46)
Minority interests	(203)
	1,151
Goodwill	256
	1,407
SATISFIED BY:	
Interest in an associate *(Note 17)*	542
Cash	865
	1,407
Net cash inflow arising on acquisition:	
Cash consideration	(865)
Bank balances and cash acquired	1,162
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	297

The subsidiary acquired during the year ended 31 December 2005 had no significant contribution to the Group's revenue and profit before tax for the year between the date of acquisition and the balance sheet date.

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33. DISPOSAL OF SUBSIDIARIES

(a) Pursuant to a directors' resolution of Sino Metro Development Limited ("Sino Metro") passed on 5 April 2006 regarding the cancellation agreement dated 6 April 2006 which entered into between the Company, a non-wholly owned subsidiary of the Company, Sino Metro, and the minority shareholder of Sino Metro. Sino Metro has forfeited the shares held by the Company and refunded a sum of HK$3,000,000 to the Company. Upon the forfeiture of the shares by Sino Metro, the Company has deemed disposed of the interest in Sino Metro. The net assets of Sino Metro at the date of disposal were as follows:

	HK$'000
Net assets disposed of	
Plant and equipment	2
Bank balances	5,150
Minority interests	(2,228)
Net assets	2,924
Gain on deemed disposal	76
Total refund	3,000
Satisfied by:	
Cash	3,000
Net cash outflow arising on deemed disposal:	
Cash refund	3,000
Bank balances disposed of	(5,150)
Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	(2,150)

The subsidiary disposed of during the year ended 31 December 2006 had no significant impact on the turnover and results of the Group.

33. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) At 31 July 2006, the Group disposed of its entire interest in 維奧達（北京）生物技術有限公司 to independent third parties for no consideration.

	HK$'000
Net assets disposed of	
Property, plant and equipment	61
Inventories	40
Trade and other receivables	65
Bank balances and cash	19
Trade and other payables	(260)
Tax payable	(5)
Value added tax payable	(1)
Net liabilities	(81)
Gain on disposal	81
Total consideration	–
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(19)
	(19)

The subsidiary disposed of during the year ended 31 December 2006 had no significant impact on the turnover and results of the Group.

Notes to the Consolidated Financial Statements

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34. RELATED PARTY TRANSACTIONS

The Group has significant related party transactions were carried out in the normal course of the Group's business:

Notes:

(a) During the year ended 31 December 2006, a subsidiary of the Company purchased raw materials from Pharmco International, Inc. ("Pharmco") amounted to approximately HK$88,451,000 (2005: HK$68,423,000), Pharmco is a company which is wholly owned by a former minority shareholders of Maxsun International Limited ("Maxsun"), at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco.

(b) Pursuant to a trademark licence agreement dated 14 August 2002 entered into between Beshabar (Macao Commercial Offshore) Ltd. ("Beshabar (Macao)"), a wholly owned subsidiary of the Company, and Maxsun, another wholly owned (2005: 51% owned) subsidiary of the Company, Maxsun granted a licence to Beshabar (Macao) to use its trademark of Osteoform for twenty years in certain territories free of charge.

(c) 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 Sichuan, a then 85% owned subsidiary of the Company, to acquire the Former Minority Shareholder's 15% equity interest in Vital Sichuan at an aggregate consideration of RMB50,000,000 (equivalent to approximately HK$47,170,000).

For the year ended 31 December 2005, the Company settled the final phase of the consideration of RMB10,000,000 (equivalent to HK$9,434,000) by issuing 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share.

(d) A tax indemnity dated 30 January 2002 were entered into by the controlling shareholders of the Company, the Company and 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 in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002.

(e) During the year ended 31 December 2005, the Group acquired a further 45% registered share capital of 監管倉 from the minority shareholders of 監管倉 for a consideration of RMB900,000 (equivalent to approximately HK$865,000).

During the year ended 31 December 2006, the Group acquired the remaining 15% registered share capital of 監管倉 for a consideration of RMB300,000 (equivalent to approximately HK$288,000).

(f) During the year ended 31 December 2006, the Group acquired the remaining 49% equity interest in a subsidiary, Maxsun from the minority shareholders of Maxsun for a consideration of HK$49.

(g) During the year ended 31 December 2005, the Group acquired the remaining 40% equity interest in a subsidiary, 維奧成都 from the minority shareholders of 維奧成都 for a consideration of RMB7,200,000 (equivalent to HK$6,754,000).

34. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: (Continued)

(h) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2006 HK$'000	2005 HK$'000
Short-term benefits	12,613	7,774
Post-employment benefits	124	74
Share-based payments	1,051	2,222
	13,788	10,070

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. COMMITMENTS

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

(a) Capital commitments for the acquisition of property, plant and equipment

	2006 HK$'000	2005 HK$'000
Authorised but not contracted for	2,200	–
Contracted but not provided for	4,472	15,275
	6,672	15,275

(b) Commitments for the development of new products and/or technologies

	2006 HK$'000	2005 HK$'000
Contracted but not provided for	12,493	12,175

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35. COMMITMENTS *(Continued)*

(c) Commitments under operating leases

The Group as lessee

The Group leases certain of its offices and staff quarters under operating lease arrangements. Lease for properties are negotiated for a term ranging from one to two years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Land and buildings		
Within one year	**1,235**	2,478
In the second to fifth year inclusive	**712**	450
	1,947	2,928

36. 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:

	2006	2005
	HK$'000	HK$'000
Property, plant and equipment	**47,592**	25,649
Available-for-sale investments	**3,824**	5,190
Bank balances and cash	**8,724**	8,133
Prepaid lease payments on land use rights	**12,988**	–
	73,128	38,972

In addition, at the balance sheet date, one of the subsidiary's shares were also pledged for banking facilities granted to the Group.

37. BALANCE SHEET OF THE COMPANY

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Plant and equipment		**63**	102
Available-for-sale investments		**4,562**	3,696
Investments in subsidiaries		**53,036**	56,046
		57,661	59,844
Current assets			
Prepayment, deposits and other receivables		**313**	415
Amounts due from subsidiaries	*(a)*	**335,939**	293,337
Available-for-sale investments		**–**	1,494
Bank balances and cash		**1,032**	2,876
		337,284	298,122
Current liabilities			
Other payables and accrued expenses		**4,538**	1,090
Amounts due to subsidiaries	*(a)*	**29,657**	20,075
		34,195	21,165
Net current assets		**303,089**	276,957
Net assets		**360,750**	336,801
Capital and reserves			
Share capital		**15,417**	15,417
Reserves	*(b)*	**345,333**	321,384
Shareholders' fund		**360,750**	336,801

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37. BALANCE SHEET OF THE COMPANY *(Continued)*

(a) Amounts due from/to subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand. The fair value of the amounts at the balance sheet date was approximated to the corresponding carrying amount.

(b) Reserves

	Share premium	Share options reserve	Other reserve	Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	292,120	–	–	8,781	300,901
Profit for the year	–	–	–	23,572	23,572
Shares allotted and issued for settlement of final consideration in respect of acquisition of a subsidiary	9,229	–	–	–	9,229
2005 interim dividends paid	–	–	–	(15,417)	(15,417)
Recognition of equity settled share-based payments	–	3,525	–	–	3,525
Loss on fair value changes of available-for-sale investments and recognised directly in equity	–	–	(426)	–	(426)
At 31 December 2005	301,349	3,525	(426)	16,936	321,384
Profit for the year	–	–	–	22,625	22,625
Recognition of equity settled share-based payments	–	1,172	–	–	1,172
Gain on fair value changes of available-for-sale investments and recognised directly in equity	–	–	152	–	152
At 31 December 2006	301,349	4,697	(274)	39,561	345,333

38. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2006 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Direct subsidiaries:						
Ever Power Holding Inc.	Ordinary shares	British Virgin Islands ("BVI")	BVI	2 ordinary shares of US$1 each	100%	Investment holding
Gainful Plan Limited	Ordinary shares	BVI	BVI	2 ordinary shares of US$1 each	100%	Investment holding
Vital BioTech (Hong Kong) Limited	Ordinary shares	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding
Yugofoil Holdings Limited	Ordinary shares	BVI	Hong Kong	103 ordinary shares of US$1 each	100%	Investment holding
Indirect subsidiaries:						
Beshabar Trading Limited	Ordinary shares	BVI	BVI	1 ordinary share of US$1	100%	Investment holding
Beshabar (Macao)	Ordinary shares	Macao	Macao	1 quota (share) of MOP100,000 each	100%	Trading
Beshabar Trading Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Trading
Maxsun	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Investment holding

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38. PRINCIPAL SUBSIDIARIES *(Continued)*

	Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
	Indirect subsidiaries: (Continued)						
#	Wuhan Weiao	Contributed capital	PRC	PRC	RMB29,610,000	96.96%	Manufacturing and trading of pharmaceutical products
##	Vital Sichuan	Contributed capital	PRC	PRC	RMB221,080,754	100%	Manufacturing and trading of pharmaceutical products
##	Vital (Sichuan) Biotech Co., Ltd.	Contributed capital	PRC	PRC	US$1,400,000	100%	Research and development of biotechnology
	Wide Triumph Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Management services
##	維奧成都	Contributed capital	PRC	PRC	RMB25,000,000	100%	Manufacturing and trading of pharmaceutical products
	監管倉	Contributed capital	PRC	PRC	RMB2,000,000	100%	Provision of logistic services

\# Equity joint ventures
\## Wholly owned foreign enterprise

The above table lists the subsidiaries of the Group, which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

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