1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the main board from 8 December 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group has continued to be principally engaged in the research and development, production and sale of a series of biopharmaceutical products for the medical treatment of ophthalmic diseases and a series of modernised Chinese medicines and chemical medicines for the treatment of hepatitis; and the investment in Sino-foreign equity joint ventures, whose principal activities are the manufacture, distribution and sale of pharmaceutical products.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

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2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Cont'd)

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in note 3 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained in note 14.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly-controlled entity (Cont'd)

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of a jointly-controlled entity is included as part of the Group's interest in a jointly-controlled entity.

Goodwill

Goodwill arising on the acquisition of subsidiaries and a jointly-controlled entity represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over the respective estimated useful lives of 8 and 10 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and jointly-controlled entity, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior year. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the value of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of a previous valuation is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation (Cont'd)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	4%-5%
Leasehold improvements	5%-20%
Plant and machinery	5%-9%
Motor vehicles	9%-18%
Furniture and fixtures	18%

Land use rights are stated at valuation less accumulated amortisation and any impairment losses. Amortization is calculated on the straight-line basis to write off the costs of the land use rights over the respective period of land use rights.

Improvements to leasehold buildings are depreciated over the shorter of the lease term and the rate of 20% per annum.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction or installation, and is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over the respective estimated useful lives not exceeding 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Research and development costs
All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is a lessee, rentals payables under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investment

Long term investment represents non-trading investment in unlisted equity securities intended to be held on a long term basis.

In the prior years, unlisted securities were stated at their estimated fair values at the balance sheet date with adjustments to the estimated fair value, if any, to the long term investment revaluation reserve. The estimated fair values of unlisted investments were determined by the directors having regard to, inter alia, comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Long term investment (Cont'd)

Effective from 1 January 2003, unlisted securities are stated at cost less any impairment losses, on an individual basis. An impairment loss is recognised only if the carrying amount exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. This is a change in the accounting policy for long term investment in non-trading unlisted equity securities from the prior years as the directors consider accounting for long term investment at cost less impairment losses present more fairly the initial intention of the Group's investment for clearly identified long term purpose. As this change does not have any significant impact on the financial statements for the current and prior years, there is no restatement to the comparatives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work-in-progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interest in a jointly-controlled entity, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interest in a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(iii) dividend income, when the shareholders' right to receive payment has been established; and

(iv) government grants, when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

Pension schemes

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20-23% of the payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grants the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and a jointly-controlled entity in the People's Republic of China (the "PRC") are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries and the jointly-controlled entity in the PRC are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flow of subsidiaries in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the date of the cash flows. Frequently recurring cash flows of subsidiaries in the PRC which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's customers and operations are located in the PRC.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. During the year, the directors reviewed the segment information disclosure, and information on biopharmaceutical and modernised Chinese medicines and chemical medicines was further analysed. Summary details of the business segments are as follows:

(a) the biopharmaceutical medicines segment comprises the manufacture, sale and distribution of the biopharmaceutical medicine products;

(b) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine products and chemical medicine products; and

(c) the investment segment is engaged in long term investment.

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Cont'd)

For the year ended 31 December

	2003 HK$'000	2002 HK$'000
Segment revenue:		
Biopharmaceutical medicines	378,553	335,692
Modernised Chinese medicines and chemical medicines	436,356	356,628
Investment	6,791	–
	821,700	692,320
Segment results:		
Biopharmaceutical medicines	88,051	81,913
Modernised Chinese medicines and chemical medicines	97,881	73,343
Investment	(1,580)	(1,812)
	184,352	153,444
Unallocated expenses	(26,200)	(20,666)
Other revenue	9,318	3,932
Profit from operating activities	167,470	136,710
Finance costs	(1,380)	(1,124)
Share of profit of:		
A jointly-controlled entity (modernised Chinese medicines and chemical medicines)	7,411	–
Amortisation of goodwill on acquisition of a jointly-controlled entity (modernised Chinese medicines and chemical medicines)	(267)	–
Profit before tax	173,234	135,586
Tax	(23,299)	(17,175)
Profit before minority interests	149,935	118,411
Minority interests	(68,320)	(61,042)
Net profit attributable to shareholders	81,615	57,369

4. SEGMENT INFORMATION (Cont'd)

As at 31 December

	2003 HK$'000	2002 HK$'000
Segment assets:		
Biopharmaceutical medicines	220,045	140,706
Modernised Chinese medicines and chemical medicines	302,780	291,240
Investment	213,178	162,040
	736,003	593,986
Segment liabilities:		
Biopharmaceutical medicines	73,903	32,153
Modernised Chinese medicines and chemical medicines	80,356	91,075
Investment	85,410	48,225
	239,669	171,453

For the year ended 31 December

	2003 HK$'000	2002 HK$'000
Other segment information:		
Depreciation and amortisation:		
Biopharmaceutical medicines	12,433	5,818
Modernised Chinese medicines and chemical medicines	12,126	8,574
Investment	1,146	196
	25,705	14,588

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Cont'd)

	2003 HK$'000	2002 HK$'000
Other non-cash expenses:		
Biopharmaceutical medicines	285	600
Modernised Chinese medicines and chemical medicines	617	33
	902	633
Capital expenditure:		
Biopharmaceutical medicines	39,875	21,561
Modernised Chinese medicines and chemical medicines	10,212	47,035
Investment	3,830	118
	53,917	68,714

5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for sales returns and discounts, and dividend income.

An analysis of turnover and other revenue is as follows:

	2003 HK$'000	2002 HK$'000
Turnover		
Sale of goods	814,909	692,320
Dividend income from an unlisted investment	6,791	–
	821,700	692,320
Other revenue		
Interest income	2,652	2,024
Government grants	3,567	552
Sale of scrap materials	865	329
Technology transfer income	–	754
Others	2,234	273
	9,318	3,932

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2003 HK$'000	2002 HK$'000
Cost of inventories sold		168,696	145,286
Depreciation	14	24,049	13,703
Amortisation of intangible assets*	15	474	153
Amortisation of goodwill*		915	732
Minimum lease payments under operating leases:			
Land and buildings		9,522	10,016
Loss on disposal of fixed assets		902	149
Write-off of fixed assets		–	484
Provision for/(write-back of) doubtful debts		1,494	(600)
Research and development costs		32,070	19,793
Auditors' remuneration		627	540
Staff costs (including directors' remuneration, note 8)			
Wages and salaries		94,032	87,699
Pension contributions**		11,509	9,363
		105,541	97,062
Exchange losses, net		1,016	119

Notes:

* The amortisation of intangible assets (i.e. patents) and goodwill for the year are included in "Cost of sales" and "Other operating expenses" on the face of the consolidated profit and loss account, respectively.

** During the year, certain of the Company's subsidiaries in the PRC were members of a pension contribution scheme managed by their respective local governments. Contributions made during the year were based on 20%-23% (2002: 20%-23%) of the employees' salaries and were charged to the consolidated profit and loss account as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December 2003 (2002: 5%).

Notes to Financial Statements

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7. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on bank loans wholly repayable within one year	790	1,033
Interest on convertible bonds	590	91
	1,380	1,124

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	2003 HK$'000	2002 HK$'000
Fees	114	187
Other emoluments:		
Salaries, allowances and benefits in kind	3,238	2,888
Pension contributions	42	41
Discretionary bonuses	1,420	1,323
	4,700	4,252
	4,814	4,439

All the directors' fees were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: nil). The non-executive director did not receive any emoluments during the year (2002: nil).

8. DIRECTORS' REMUNERATION (Cont'd)

The number of directors whose remuneration fell within the following bands is as follows:

	2003	2002
Nil to HK$1,000,000	5	6
HK$1,000,001 to HK$1,500,000	1	1
HK$2,000,001 to HK$2,500,000	1	1
	7	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and prior years.

No share options were granted to the directors for the current and prior years in respect of their services to the Group.

For the year ended 31 December 2003, an aggregate of 4,200,000 share options (2002: nil) were exercised by the directors. No value in respect of these options was charged to the consolidated profit and loss account or is otherwise included in the above disclosure in directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	2003 HK$'000	2002 HK$'000
Salaries, allowances and benefits in kind	946	905
Pension scheme contributions	21	22
Discretionary bonuses	728	726
	1,695	1,653

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES (Cont'd)

The remuneration of all the non-director, highest paid employees fell within the band of nil to HK$1,000,000.

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join or upon joining the Group, or as compensation for loss of office (2002: nil).

During the year, no share options were granted to the non-director, highest paid employees (2002: nil).

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003 HK$'000	2002 HK$'000
Provision for the year		
PRC income tax	22,330	17,175
Share of tax attributable to:		
A jointly-controlled entity	969	–
Total tax charge for the year	23,299	17,175

Pursuant to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries are qualified "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% applies.

10. TAX (Cont'd)

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), one of the Group's principal operating subsidiaries, is exempted from corporate income tax for the two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% exemption from the full corporate income tax rate for the succeeding three years (the "Tax Exemption"). JCTT was entitled to the 50% exemption for its corporate income tax and therefore JCTT's corporate income tax rate was 7.5% for the year ended 31 December 2002. The Tax Exemption expired on 31 December 2002. As JCTT qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, JCTT is subject to a corporate income tax rate of 10% in 2003.

Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. The Tax Exemption expired on 31 December 2001. As CTF qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, CTF has been subject to a corporate income tax rate of 10% since 2002.

Deferred tax has not been provided because the taxable and deductible temporary differences are immaterial for the current and prior years.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Profit before tax	173,234	135,586
Tax at the statutory tax rate of 33%	57,167	44,744
Less: preferential tax rate reduction by 18%	(31,182)	(24,406)
Expenses not deductible for tax	7,425	8,496
Non-taxable income	(1,019)	–
Tax losses of subsidiaries	5,821	303
Tax exemptions/deductions	(14,913)	(11,962)
Actual tax expense	23,299	17,175

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11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$10,573,000 (2002: HK$32,034,000) (note 32).

12. DIVIDENDS

	Group	
	2003 HK$'000	2002 HK$'000
Interim dividend		
– HK$0.05 (2002: HK$0.05) per ordinary share	16,600	15,000
Proposed final dividend		
– HK$0.10 (2002: HK$0.09) per ordinary share	33,200	29,880
	49,800	44,880

The proposed final dividend for the current year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend for the prior year was approved by the Company's shareholders at the annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$81,615,000 (2002: HK$57,369,000), and the weighted average of 331,736,986 (2002: 304,166,667) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$81,615,000 (2002: HK$57,369,000) and interest of HK$590,000 (2002: HK$91,000) on convertible bonds. The weighted average number of ordinary shares used in calculation is the 331,736,986 (2002: 304,166,667) ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 12,246,966 (2002: 19,416,476) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year and the weighted average of 24,639,077 (2002: 16,421,053) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all convertible bonds during the year.

14. FIXED ASSETS

Group

	Leasehold buildings HK$'000	Land use rights HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Con-struction in progress HK$'000	Total HK$'000
Cost or valuation:								
At beginning of year	57,420	3,566	15,937	96,446	11,340	21,533	22,239	228,481
Additions	69	44	605	5,186	7,616	2,738	26,635	42,893
Surplus/(deficit) on revaluation	(2,338)	2,504	–	–	–	–	–	166
Disposals	(322)	–	–	(1,272)	(1,544)	(804)	(184)	(4,126)
Transfers	5,508	–	6,502	6,110	–	794	(18,914)	–
Exchange realignment	(287)	(14)	(35)	(396)	(44)	(85)	(90)	(951)
At 31 December 2003	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Analysis of cost or valuation:								
At cost	–	–	23,009	106,074	17,368	24,176	29,686	200,313
At valuation	60,050	6,100	–	–	–	–	–	66,150
	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Accumulated depreciation:								
At beginning of year	4,500	–	8,973	28,745	5,204	7,766	–	55,188
Provided during the year	3,288	116	1,154	13,303	2,266	3,922	–	24,049
Disposals	(171)	–	–	(946)	(1,032)	(597)	–	(2,746)
Written back on revaluation	(7,539)	(116)	–	–	–	–	–	(7,655)
Exchange realignment	(78)	–	(24)	(157)	(26)	(39)	–	(324)
At 31 December 2003	–	–	10,103	40,945	6,412	11,052	–	68,512
Net book value:								
At 31 December 2003	60,050	6,100	12,906	65,129	10,956	13,124	29,686	197,951
At 31 December 2002	52,920	3,566	6,964	67,701	6,136	13,767	22,239	173,293

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14. FIXED ASSETS (Cont'd)

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Total HK$'000
Cost:			
At beginning of year	596	306	902
Additions	2,826	58	2,884
At 31 December 2003	3,422	364	3,786
Accumulated depreciation:			
At beginning of year	167	113	280
Provided during the year	248	81	329
At 31 December 2003	415	194	609
Net book value:			
At 31 December 2003	3,007	170	3,177
At 31 December 2002	429	193	622

The Group's leasehold buildings are all situated in the PRC and are held under long term leases.

The Group's leasehold buildings and land use rights as at 31 December 2003 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK$66,150,000 based on their existing use. The revaluation resulted in a surplus of HK$8,533,000 and a deficit of HK$712,000. The Group has credited HK$4,555,000 to the revaluation reserve and charged HK$392,000 in the profit and loss account, respectively, in current year.

Had the leasehold buildings and land use rights been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$36,761,000 as at 31 December 2003 (2002: HK$24,554,000).

As at 31 December 2003, the Group had not obtained title certificates for certain acquired leasehold buildings and land use rights at net book values of HK$24,071,000 and HK$3,113,000, respectively (2002: HK$24,501,000 and HK$3,566,000, respectively). The directors are of the opinion that the title certificates will be obtained in due course. In the opinion of the PRC lawyers, there is no legal impediment for the Group to obtain good title to these leasehold buildings and land use rights.

15. INTANGIBLE ASSETS

Patents

	Group 2003 HK$'000	Group 2002 HK$'000
Cost:		
At beginning of year	2,563	569
Additions	1,869	1,994
At 31 December 2003	4,432	2,563
Accumulated amortisation:		
At beginning of year	174	21
Provided during the year	474	153
At 31 December 2003	648	174
Net book value	3,784	2,389

16. DEFERRED DEVELOPMENT COSTS

	Group 2003 HK$'000	Group 2002 HK$'000
Cost:		
Additions, balance and net book value at 31 December	11,024	–

There is no amortisation for the year ended 31 December 2003 as the products have not yet been put into commercial production.

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17. GOODWILL

	Group	
	2003	2002
	HK$'000	HK$'000
Cost:		
At beginning of year	6,781	6,781
Addition	1,464	–
At 31 December 2003	8,245	6,781
Accumulated amortisation:		
At beginning of year	4,393	3,661
Provided during the year	915	732
At 31 December 2003	5,308	4,393
Net book value	2,937	2,388

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	131,299	131,299
Due from subsidiaries	81,273	5,831
Due to subsidiaries	(19,280)	(1,389)
	193,292	135,741

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.	PRC/Mainland China	US$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US$2 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited	British Virgin Islands/ Mainland China	US$3 Ordinary	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK$100 Ordinary	–	85	Research and development of biopharmaceutical products
Hainan Chia Tai Freda Medicine Co., Ltd.	PRC/Mainland China	Rmb1,000,000	–	55	Sale of medical products
Hainan Chia Tai Freda Pharmaceutical Co., Ltd.	PRC/Mainland China	Rmb12,000,000	–	55	Dormant
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd.	PRC/Mainland China	Rmb99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	–	Investment holding

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18. INTERESTS IN SUBSIDIARIES (Cont'd)

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	PRC/Mainland China	US$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF")	PRC/Mainland China	Rmb42,000,000	–	55	Development, manufacture and distribution of pharmaceutical products
Shandong Chia Tai Freda New Packaging Resources Co., Ltd.	PRC/Mainland China	Rmb11,000,000	–	55	Production and sale of packaging materials
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US$50,000 Ordinary	100	–	Investment holding
Sino Concept Technology Limited	Hong Kong	HK$10,100 Ordinary	100	–	Investment holding and provision of management services
Talent Forward Limited	British Virgin Islands/ Mainland China	US$50,000 Ordinary	100	–	Investment holding

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2003 HK$'000	Group 2002 HK$'000
Share of net assets	36,728	–
Goodwill on acquisition	44,351	–
	81,079	–

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Beijing Tide Pharmaceutical Co., Ltd.	Corporate	PRC/Mainland China	35	31	35	Development, manufacture and distribution of pharmaceutical products

Investment in the jointly-controlled entity is indirectly held by the Company. As at 31 December 2003, the aggregate amounts of current assets, non-current assets, current liabilities, turnover and net profit after tax of this jointly-controlled entity were as follows:

	2003 HK$'000
Current assets	226,120
Non-current assets	35,710
Current liabilities	109,685
Turnover	180,617
Net profit after tax	87,519

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20. LONG TERM INVESTMENT

	Group	
	2003	2002
	HK$'000	HK$'000
Unlisted equity investment, at cost	29,820	29,820

The amount represents the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("CTQ"), which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily made from natural herbal ingredients in the PRC.

The Group's investment in CTQ is changed from the fair value stated in prior years to cost less impairment losses with effect from 1 January 2003 to present more fairly the directors' initial intention to hold the investment on a long term basis. As this change does not have any significant impact on the financial statements for the current and prior years, there is no restatement to the comparatives.

21. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	19,261	19,022
Work in progress	10,127	6,909
Finished goods	24,952	17,389
Spare parts and consumables	3,355	1,931
	57,695	45,251

No inventories were carried at net realisable value as at the balance sheet dates (2002: nil).

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit term is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet dates, based on invoice date and net of provisions, is as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Current to 90 days	52,857	49,430
91 days to 180 days	1,669	1,985
Over 180 days	24	252
	54,550	51,667

23. OTHER RECEIVABLES

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Advances to suppliers	2,043	3,265	–	–
Other receivables	4,709	4,638	1,508	104
Prepaid expenses	1,562	734	593	296
	8,314	8,637	2,101	400

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24. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Group

	31 December 2003 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2003 HK$'000
Chia Tai Pharmaceutical & Medicines Limited	–	16	16

Mr. Tse Ping, a director of the Company, has beneficial interests in this company.

The amount arose from non-trading transactions. The amount due was unsecured, interest-free and was fully repaid during the year.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Cash and bank balances	170,313	141,983	5,799	1,231
Time deposits	118,536	138,542	68,292	129,119
Cash and cash equivalents	288,849	280,525	74,091	130,350

26. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet dates, based on invoice date, is as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Current to 90 days	19,340	22,721
91 days to 180 days	578	1,073
Over 180 days	1,506	643
	21,424	24,437

27. TAXES PAYABLE OTHER THAN PROFITS TAX

	Group	
	2003 HK$'000	2002 HK$'000
Value-added tax	6,025	11,166
Individual income tax	4,708	2,859
Property tax	367	322
	11,100	14,347

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Advances from customers	8,797	726	–	–
Accrued payroll and bonus	25,194	11,686	149	119
Other payables	29,936	18,588	3	2
Accrued expenses	33,021	26,757	2,002	653
Housing fund	980	2,973	–	–
Staff welfare and bonus fund	18,900	16,899	50	51
	116,828	77,629	2,204	825

Notes to Financial Statements

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29. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

30. SHARE CAPITAL

	Company	
	2003 HK$'000	2002 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	100,000	100,000
Issued and fully paid:		
332,000,000 (2002: 320,000,000) ordinary shares of HK$0.10 each	33,200	32,000

The movements in the Company's issued capital are summarised as follows:

	Number of ordinary shares	Amount *HK$'000*
At 1 January 2002	300,000,000	30,000
Share placing *(note a)*	20,000,000	2,000
At 31 December 2002 and 1 January 2003	320,000,000	32,000
Shares issued on exercise of share options *(note b)*	12,000,000	1,200
At 31 December 2003	332,000,000	33,200

Notes:

(a) On 13 September 2002, the Company issued 20,000,000 new shares of HK$0.10 each at a price of HK$1.83 per share for a total cash consideration, before expenses, of HK$36,600,000.

(b) On 8 January 2003, 12,000,000 share options were exercised and the Company issued 12,000,000 new shares of HK$0.10 each at a price of HK$0.74 per share for a total cash consideration, before expenses, of HK$8,880,000.

Details of the Company's share option scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

(a) The Existing Scheme

The Company adopted a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September 2000. On 26 April 2002, the Existing Scheme was terminated and replaced by a new share option scheme, as detailed below under the heading "The New Scheme". Upon the termination of the Existing Scheme, no further share options will be granted pursuant to the Existing Scheme, however the Existing Scheme will, in all other respects, remain in force to the extent necessary to give effect to the exercise of the outstanding share options previously granted pursuant thereto. The outstanding share options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries. The directors of the Company are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares of the Company (the "Shares"). Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing from 19 September 2000.

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the Shares in issue for a period of 10 consecutive years. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 10% of the Shares in issue at any time. No option may be granted to any eligible participants which, if exercised in full, would result in such eligible participants becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, which may commence from the date immediately following the date of grant and ending on such date as the directors of the Company may determine, but in any event not exceeding 10 years from the date of grant of such share options.

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31. SHARE OPTION SCHEME (Cont'd)

(a) *The Existing Scheme (Cont'd)*

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options as stated in the daily quotation sheet of the Stock Exchange; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer as stated in the daily quotation sheet of the Stock Exchange.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Existing Scheme during the year:

	Number of share options										Price of the Company's shares ****	
Name or category of participant	At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Reclassi-fication*	At 31 December 2003 HK$	Date of grant of share options**	Exercise period of share options HK$	Exercise price per share option*** HK$	At grant date of options	At exercise date of options
Directors												
Mr. Tse Ping	7,500,000	–	3,000,000	–	–	–	4,500,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
Mr. Ling Peixue*	1,000,000	–	400,000	–	–	(600,000)	–	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
Mr. Tao Huiqi	1,000,000	–	400,000	–	–	–	600,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
Mr. Wang Jinyu	1,000,000	–	400,000	–	–	–	600,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
	10,500,000	–	4,200,000	–	–	(600,000)	5,700,000					
Other employees												
In aggregate	19,500,000	–	7,800,000	–	–	600,000	12,300,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
	30,000,000	–	12,000,000	–	–	–	18,000,000					

31. SHARE OPTION SCHEME (Cont'd)

(a) The Existing Scheme (Cont'd)

* *Mr. Ling Peixue resigned as an executive director of the Company on 23 April 2003. As he remained as senior management of the Group, his interests in the Existing Scheme has been reclassified under the caption of "Other employees".*

** *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

*** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

**** *The price of the Company's shares disclosed as at the date of the share options is the Stock Exchange closing price on the date of grant of the options and the exercise date of the options.*

The 12,000,000 share options exercised during the year resulted in the issue of 12,000,000 ordinary shares of the Company and the new share capital of HK$1,200,000 and share premium of HK$7,680,000 (before issue expense), as detailed in note 30 to the financial statements.

At the balance sheet date, the Company had 18,000,000 share options outstanding under the Existing Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 18,000,000 additional ordinary shares of the Company and additional share capital of HK$1,800,000 and share premium of HK$11,520,000 (before issue expenses).

(b) The New Scheme

Following the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001, no share option may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new share option scheme (the "New Scheme") was adopted by the Company on 26 April 2002 and at the same time the Existing Scheme was terminated. The New Scheme remains in force for ten years commencing from 26 April, 2002. On approval by the Stock Exchange for listing of the Company's shares on the main board, the Company adopted a share option scheme (the "Scheme") and terminated the New Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 24 November 2003. No share options were granted under the New Scheme since 26 April 2002.

Notes to Financial Statements

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31. SHARE OPTION SCHEME (Cont'd)

(c) The Scheme

The Scheme became effective on 8 December 2003 upon the listing of the Company's shares on the Main Board. Unless otherwise cancelled or amended, the Scheme remains in force for 10 years from that date.

The purpose of the Scheme is to enable the directors of the Company to grant share options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group. Under the Scheme, the eligibility of the participants for the grant of any options shall be determined by the directors of the Company from time to time on the basis of their contribution or potential contribution to the development and growth of the Group and the directors may at their discretion, invite any person belonging to any of the following classes of participants to take up options for the Shares:

(i) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Group or any controlling shareholder ("Controlling Shareholder" as defined under rules of the share option scheme adopted by the shareholders of the Company at an extraordinary general meeting on 24 November 2003) or any company controlled by a Controlling Shareholder ("Controlling Shareholder's Company");

(ii) any individual for the time being selected to work for any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

(iii) any holder of any securities issued by any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

(iv) any business or joint venture partner, contractor, agent or representative of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

(v) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services incidental to the business of the Company and/or its subsidiaries to any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

31. SHARE OPTION SCHEME (Cont'd)

(c) The Scheme (Cont'd)

(vi) any investor, vendor, supplier, producer, developer, agent, licensor service provider of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

(vii) any customer, licensee (including any sub-licensee), wholesaler, retailer, trader or distributor of goods or services of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

(viii) any landlord or tenant (including sub-tenant) of any member of the Group, or any Controlling Shareholder or any Controlling Shareholder's Company; and

(ix) any company controlled by one or more persons belonging to any of the above classes of participants.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding options, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

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31. SHARE OPTION SCHEME (Cont'd)

(c) The Scheme (Cont'd)

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined on the date of offer of grant of share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the Scheme for the holding of a share option before it can be exercised.

The exercise price of the Shares under the Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No option has been granted under the Scheme during the year.

32. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Leasehold properties revaluation reserve HK$'000	Statutory reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002		55,973	52,605	21,687	2,546	3,412	498	47,818	184,539
Issue of shares	30	34,600	–	–	–	–	–	–	34,600
Share issue expenses		(535)	–	–	–	–	–	–	(535)
Interim dividend for 2002	12	–	–	–	–	–	–	(15,000)	(15,000)
Net profit for the year		–	–	–	–	–	–	57,369	57,369
Transfer from retained profits		–	–	–	–	8,418	–	(8,418)	–
Transfer from statutory reserve fund		–	–	7,256	–	(7,256)	–	–	–
Proposed final dividend 2002	12	–	–	–	–	–	–	(29,880)	(29,880)
Exchange realignment		–	–	(19)	–	(9)	(137)	–	(165)
At 31 December 2002 and 1 January 2003		90,038	52,605	28,924	2,546	4,565	361	51,889	230,928
Issue of shares	30	7,680	–	–	–	–	–	–	7,680
Interim dividend for 2003	12	–	–	–	–	–	–	(16,600)	(16,600)
Net profit for the year		–	–	–	–	–	–	81,615	81,615
Transfer from retained profits		–	–	–	–	16,339	–	(16,339)	–
Proposed final dividend 2003	12	–	–	–	–	–	–	(33,200)	(33,200)
Surplus on revaluation of leasehold properties	14	–	–	–	4,555	–	–	–	4,555
Exchange realignment		–	–	–	–	(51)	(1,341)	–	(1,392)
At 31 December 2003		97,718	52,605	28,924	7,101	20,853	(980)	67,365	273,586
Reserves retained by:									
Company and subsidiaries		97,718	52,605	28,924	7,101	20,853	(980)	60,923	267,144
A jointly-controlled entity		–	–	–	–	–	–	6,442	6,442
At 31 December 2003		97,718	52,605	28,924	7,101	20,853	(980)	67,365	273,586
Company and subsidiaries		90,038	52,605	28,924	2,546	4,565	361	51,889	230,928
At 31 December 2002		90,038	52,605	28,924	2,546	4,565	361	51,889	230,928

Notes to Financial Statements

31 December 2003

32. RESERVES (Cont'd)

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September 2000, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the PRC on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's PRC joint ventures, profits of the Group's PRC joint ventures as determined in accordance with the accounting rules and regulations in the PRC are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, enterprise expansion fund and staff welfare and bonus fund. According to the articles of association of the respective PRC joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective PRC joint ventures. The appropriation to staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective PRC joint ventures and has been reclassified as expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the PRC joint ventures.

32. RESERVES (Cont'd)

Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002		55,973	107,299	(26,906)	136,366
Issue of shares	30	34,600	–	–	34,600
Share issue expenses		(535)	–	–	(535)
Interim dividend for 2002	12	–	–	(15,000)	(15,000)
Net profit for the year		–	–	32,034	32,034
Proposed final 2002 dividend	12	–	–	(29,880)	(29,880)
At 31 December 2002 and 1 January 2003		90,038	107,299	(39,752)	157,585
Issue of shares	30	7,680	–	–	7,680
Interim dividend for 2003	12	–	–	(16,600)	(16,600)
Net profit for the year		–	–	10,573	10,573
Proposed final 2003 dividend	12	–	–	(33,200)	(33,200)
At 31 December 2003		97,718	107,299	(78,979)	126,038

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation as set out in the Company's prospectus dated 22 September 2000, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account may be distributed to shareholders under certain circumstances.

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33. CONVERTIBLE BONDS

On 14 August 2002, the Company entered into subscription agreements (the "Subscription Agreements") with Jian Kang Ltd. ("Jian Kang") and Super Demand Investments Limited ("Super Demand"), respectively. Pursuant to the Subscription Agreements, the Company agreed to issue to Jian Kang (the "2002 Convertible Bond") and Super Demand (the "2003 Convertible Bond") convertible bonds for principal amount of US$6,000,000 (equivalent to approximately HK$46,800,000) and US$4,000,000 (equivalent to approximately HK$31,200,000), respectively.

The 2002 Convertible Bond was issued for gross cash proceeds of approximately HK$46,800,000 on 22 October 2002 and bears interest at 1% per annum which is payable every three months in arrears. The 2002 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2002 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2002 Convertible Bond (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 16,421,053 new shares would be issued upon the full conversion of the 2002 Convertible Bond.

On 30 December 2002, the Company and Super Demand agreed to defer the issuance of the 2003 Convertible Bond to 31 March 2003 or such other date as both parties agree in writing. The 2003 Convertible Bond was issued for gross cash proceeds of approximately HK$31,200,000 on 31 March 2003, and bears interest at 1% per annum which is payable every three months in arrears. The 2003 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2003 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2003 Convertible Bond (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 10,947,368 new shares would be issued upon the full conversion of the 2003 Convertible Bond.

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, a joint venture partner contributed a technical know-how in the amount of HK$2,119,000 into a subsidiary as capital contribution.

In the prior year, the registered capital of CTF was increased from Rmb28,000,000 to Rmb42,000,000. The increase in the registered capital was satisfied by the capitalisation of the general reserve fund and enterprise expansion fund for an aggregate amount of Rmb14,000,000, equivalent to approximately HK$13,192,727.

35. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

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36. COMMITMENTS

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

(a) Capital commitments

	Group	
	2003 HK$'000	2002 HK$'000
Contracted, but not provided for the acquisition of:		
– fixed assets	25,583	9,929
– product technology	3,054	4,156
	28,637	14,085
Authorised, but not contracted for the acquisition of:		
– fixed assets	35,545	7,293

In addition, the Group's share of the jointly-controlled entity's own capital commitments, which are not included in the above, were as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Contracted, but not provided for the acquisition of:		
– fixed assets	19,233	–

The Company did not have any capital commitments at the balance sheet dates.

36. COMMITMENTS (Cont'd)

(b) *Commitments under operating leases*

As at 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Within one year	2,862	2,559	832	725
In the second to fifth years, inclusive	4,089	4,153	55	275
After five years	24,037	21,888	–	–
	30,988	28,600	887	1,000

The Group's operating leases for land and buildings are entered into for terms from one to fifty years.

37. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	2003 HK$'000	2002 HK$'000
Sales of products to:		
– a Chinese joint venture partner of a subsidiary *(note a)*	3,632	2,147
– a related party with a common shareholder of a subsidiary *(note a)*	445	–

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37. RELATED PARTY TRANSACTIONS (Cont'd)

	2003 HK$'000	2002 HK$'000
Purchases of raw materials from a related party with a common shareholder of a subsidiary (note b)	15,056	12,880
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary (note b)	1,834	1,289
– a company indirectly owned by a director (note b)	317	–
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note c)	4,340	4,525
– a Chinese joint venture partner of a subsidiary (note c)	561	562
– a company beneficially owned by a director (note c)	660	660
Research and development expenses to a fellow subsidiary of a subsidiary's Chinese joint venture partner (note d)	6,406	3,978

Notes:

(a) Sales of products to the Chinese joint venture partner of the subsidiary and a related party with a common shareholder of a subsidiary were conducted with reference to the market prices.

(b) Purchases of raw materials were conducted with reference to the market prices.

(c) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.

(d) Research and development expenses were based on the terms of the agreements entered into with the related party.

38. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 18 March 2004, the Company announced a proposal for the subdivision of every issued and unissued shares of HK$0.10 each into four shares of HK$0.025 each. The proposed subdivision is conditional upon fulfillment of various conditions, including the approval by the shareholders. The respective subscription price of the share options and convertible bonds will be adjusted in accordance with the relevant instruments. Details of the proposed subdivision are set out in the Company's press announcement.

In addition, the directors of the Company proposed a final dividend of HK$0.10 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 12 and 32).

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items in the notes to the financial statements have been revised to comply with the new requirements to conform with the current year's presentation. In addition, as explained in note 4 to the financial statements, disclosure on segment information has been revised to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2004.