## 1. GENERAL

The Company was incorporated in the Cayman Islands on 16 April 2003 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 24 November 2003.

The principal activities of the Group are manufacture, sale, research and development of pharmaceutical products and investment holding.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are as follows:

### (a) Basis of Preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial statements have been prepared under the historical cost convention as modified for revaluation of certain property, plant and equipment.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new and revised Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced an assessment of the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on its results of operations and financial position.

### (b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposal 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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life.

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

### (d) Negative Goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

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

### (e) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. A subsidiary is considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Revenue Recognition

Revenue from sales of goods is recognised when the customer has accepted the goods and related risks and rewards of ownership.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (g) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

All other borrowing costs are charged to consolidated income statement in the year in which they are incurred.

### (h) Income Tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement 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 arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (i) Property, Plant and Equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses, if any.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation of property, plant and equipment is calculated to write off their cost or valuation less residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Leasehold land | Over the term of the lease, from 27 to 32 years |
| Buildings | Over the shorter of the term of the lease or 20 years |
| Leasehold improvement | Over the shorter of the term of the lease or 20 years |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 10% |
| Machinery | 10% |

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the consolidated income statement.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) Property Under Development

Property in the course of construction is carried at cost, less any identified impairment loss. Depreciation of this property commences when the property is ready for its intended use.

### (k) Intangible Asset

#### *(i) Research and Development Costs*

All research costs are charged to the consolidated income statement 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 identified 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.

Product development costs are stated at cost less accumulated amortisation and accumulated impairment losses.

Product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, starting from the time when the product is available for commercial production.

#### *(ii) Patents*

Purchased patents are stated at cost less accumulated amortisation and any identified impairment losses. Patents are amortised on a straight-line basis over their estimated useful lives of five to ten years.

### (l) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (l) Impairment (Continued)

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 asset is carried at revalued amount, in which case the impairment loss is treated as revaluation increase.

### (m) Operating Leases

Leases when substantially all the rewards and risks of ownership of assets remain with the leasing company are classified as operating leases. Rental payable and receivable under operating leases are accounted for in the consolidated income statement on a straight-line basis over the period of the respective leases.

### (n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method and comprises direct materials and, where appropriate, direct labour costs and those overhead that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) Provision and Contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

### (p) Staff Retirement Benefits

Costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

### (q) Foreign Currency Translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). Transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of individual companies.

The Group prepares consolidated financial statements in Hong Kong Dollar. On consolidation, the financial statements of Group companies with functional currencies other than Hong Kong Dollar are translated into Hong Kong Dollar at the rate of exchange in effect at the balance sheet date. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustment. There were no material cumulative translation adjustments during the year.

### (r) Related Parties

Two 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 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.

## 3. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discount and sale tax.

Turnover and other revenue consisted of:

| | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|
| Turnover | | |
| Sales of pharmaceutical products | **233,897** | 203,520 |
| Other revenue | | |
| Exchange gain | **–** | 269 |
| Interest income | **856** | 237 |
| Release of negative goodwill | **161** | 161 |
| | **1,017** | 667 |
| Total revenue | **234,914** | 204,187 |

## 4. FINANCE COSTS

| | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|
| Interests on bank loan | **–** | 342 |
| Bank charges | **116** | – |
| | **116** | 342 |

## 5. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

| | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|
| Cost of inventory | **139,212** | 121,998 |
| Directors' remuneration | | |
| – Fees | **160** | 10 |
| – Other emoluments | **2,489** | 2,783 |
| Auditors' remuneration | **480** | 480 |
| Research and development costs | **530** | 242 |
| Depreciation | **3,073** | 1,959 |
| *Less:* Amount included in research and development cost | **(82)** | (26) |
| | **2,991** | 1,933 |
| Staff costs (including directors' remuneration) | | |
| Salaries and allowance | **5,586** | 5,408 |
| Contributions to retirement scheme | **680** | 554 |
| | **6,266** | 5,962 |
| *Less:* Amount included in research and development cost | **(229)** | (216) |
| | **6,037** | 5,746 |
| Deficit on revaluation of land and building | **–** | 758 |

## 6. TAXATION

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| PRC enterprise income tax | **13,448** | 5,679 |

(i) Fujian Fuqing Pharmaceutical Co., Ltd. ("Fuqing Pharmaceutical"), which was formerly a PRC domestic enterprise, was subject to PRC enterprise income tax at a rate applicable to the company on the assessable profits for the year. With effect from 16 November 1999, Fuqing Pharmaceutical was changed from a domestic enterprise to a wholly-foreign owned enterprise and is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The 50% tax reduction was expired on 31 December 2003.

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2003: Nil).

(iii) The Group did not have any significant unprovided deferred taxation at 31 December 2004 (2003: Nil).

The reconciliation between the Group's profit for the year and the amount which is calculated based on the concessionary tax rate of 15% (2003: 7.5%) in PRC is as follows:

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before taxation for the year | **81,081** | 68,114 |
| Tax calculated at the tax rate of 15% (2003: 7.5%) | **12,162** | 5,108 |
| Expenses not deductible for taxation purposes | **759** | 384 |
| Release of negative goodwill | **(24)** | (12) |
| Temporary difference | **551** | 199 |
| Taxation | **13,448** | 5,679 |

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately HK$4,963,000 (2003: a loss of HK$1,941,000) dealt with in the financial statements of the Company.

## 8. DIVIDENDS

No dividend was paid or proposed by the Company during the year (2003: Nil).

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to shareholders of HK$67,633,000 (2003: HK$62,435,000) and the weighted-average number of 400,000,000 (2003: 325,666,000) ordinary shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares during the year (2003: Nil).

## 10. STAFF RETIREMENT BENEFITS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary.

The employees of the Group's subsidiary in PRC are members of a state-sponsored retirement plan operated by the local government in PRC and this subsidiary make mandatory contributions to the state-sponsored retirement plan to fund the employees retirement benefits. The retirement contributions paid by the PRC subsidiary are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in PRC and are charged to the consolidated income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in PRC.

The contributions paid for the year were approximately HK$680,000 (2003: HK$554,000). As at 31 December 2004, there were no material forfeitures available to offset the Group's future contributions (2003: Nil).

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) The aggregate amounts of emoluments payable to directors of the Group during the year are as follows:

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fees | **160** | 10 |
| Other emoluments | **2,489** | 2,783 |
| | **2,649** | 2,793 |

The emoluments of the above directors fall within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2004** | 2003 |
| Emolument | | |
| Nil to HK$1,000,000 | **8** | 6 |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |

No directors waived any emoluments in the year ended 31 December 2004 (2003: Nil).

Directors' fees disclosed above were paid to independent non-executive directors.

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(ii) Details of the emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

| | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|
| Basic salaries and allowances | **2,448** | 618 |
| Bonuses | **–** | 2,350 |
| Contributions to retirement scheme | **41** | 46 |
| | **2,489** | 3,014 |

| | 2004 | 2003 |
|---|---|---|
| Number of directors | **5** | 3 |
| Number of employees | **–** | 2 |
| | **5** | 5 |

The emoluments of the five highest paid individuals (2003: four) for the year are below HK$1,000,000 while no highest paid individual (2003: one) for the year ended 31 December 2004 is within the band from HK$2,000,001 to HK$2,500,000.

## 12. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Land and buildings HK$'000 | Leasehold improvement HK$'000 | Plant and machinery HK$'000 | Office and other equipment HK$'000 | Motor vehicles HK$'000 | Property under development HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| At 1 January 2004 | 17,190 | 281 | 20,132 | 516 | 902 | – | 39,021 |
| Additions | 1,044 | 8 | 441 | 142 | 390 | 19,589 | 21,614 |
| Transfer | 19,340 | – | – | – | – | (19,340) | – |
| **At 31 December 2004** | 37,574 | 289 | 20,573 | 658 | 1,292 | 249 | 60,635 |
| **Comprising:** | | | | | | | |
| At cost | 20,384 | 289 | 20,573 | 658 | 1,292 | 249 | 43,445 |
| At valuation 2003 | 17,190 | – | – | – | – | – | 17,190 |
| | 37,574 | 289 | 20,573 | 658 | 1,292 | 249 | 60,635 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2004 | 268 | – | 2,871 | 202 | 284 | – | 3,625 |
| Provision for the year | 995 | 58 | 1,842 | 83 | 95 | – | 3,073 |
| **At 31 December 2004** | 1,263 | 58 | 4,713 | 285 | 379 | – | 6,698 |
| **Net book value** | | | | | | | |
| **At 31 December 2004** | 36,311 | 231 | 15,860 | 373 | 913 | 249 | 53,937 |
| At 31 December 2003 | 16,922 | 281 | 17,261 | 314 | 618 | – | 35,396 |

## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

| | Leasehold improvement HK$'000 | Office and other equipment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2004 | 281 | 132 | 413 |
| Additions | 8 | 2 | 10 |
| **At 31 December 2004** | 289 | 134 | 423 |
| **Accumulated depreciation** | | | |
| At 1 January 2004 | – | – | – |
| Provision for the year | 58 | 27 | 85 |
| **At 31 December 2004** | 58 | 27 | 85 |
| **Net book value** | | | |
| **At 31 December 2004** | 231 | 107 | 338 |
| At 31 December 2003 | 281 | 132 | 413 |

The land and buildings are situated in PRC and held under medium term lease.

Certain leasehold land and buildings of the Group were valued at 31 August 2003 by Sallmanns (Far East) Limited, an independent valuer, on an open market value basis.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK$16,757,000 (2003: HK$17,680,000).

## 13. INTANGIBLE ASSET

| | The Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| **Patents** | | |
| Cost | | |
| At beginning of the year | **–** | – |
| Additions during the year | **11,132** | – |
| At end of the year | **11,132** | – |
| Accumulated amortisation | | |
| Provided during the year | **–** | – |
| Net book value | | |
| At end of the year | **11,132** | – |

## 14. INVESTMENT IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **134,065** | 134,065 |
| Due from subsidiaries | **58,272** | 55,365 |
| | **192,337** | 189,430 |

Amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

## 14. INVESTMENT IN SUBSIDIARIES (Continued)

Details of subsidiaries as at 31 December 2004 are as follows:

| Name | Country of incorporation/ operation | Class of share held | Issued capital | Proportion of nominal value of issued/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| Long Master International Limited | British Virgin Islands/ Hong Kong | Ordinary | US$10,000 | 100% | – | Investment holding |
| Fujian Fuqing Pharmaceutical Company Limited ("Fuqing Pharmaceutical") | PRC/PRC | Ordinary | RMB21,000,000 | – | 100% | Manufacture, sale, research and development of pharmaceutical products |

* Fuqing Pharmaceutical was incorporated in PRC on 30 December 1996 as a domestic enterprise with a registered capital of RMB8,000,000. Effective from 16 November 1999, Fuqing Pharmaceutical was changed from a domestic enterprise to a wholly-foreign owned enterprise and its registered capital was increased to RMB21,000,000. Fuqing Pharmaceutical has an operating period from 30 December 1996 to 30 October 2022.

## 15. NEGATIVE GOODWILL

| | The Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Gross amount | | |
| At beginning and at end of the year | **1,612** | 1,612 |
| Released to income | | |
| At beginning of the year | **698** | 537 |
| Released for the year | **161** | 161 |
| At end of the year | **859** | 698 |
| Carrying amount | | |
| At end of the year | **753** | 914 |

## 16. INVENTORIES

| | The Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Raw material | **3,443** | 4,043 |
| Finished goods | **2,795** | 2,092 |
| Total | **6,238** | 6,135 |

At 31 December 2004, none of the inventories are stated at net realisable value (2003: Nil).

## 17. TRADE RECEIVABLE

The Group normally grants credit terms of 60 to 90 days to its customers.

The ageing analysis of trade receivable is as follows:

| | The Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **18,293** | 27,462 |
| 31 to 60 days | **17,927** | 24,672 |
| 61 to 90 days | **–** | 878 |
| 91 to 180 days | **–** | 570 |
| | **36,220** | 53,582 |

## 18. TRADE PAYABLE

The ageing analysis of accounts payable is as follows:

| | The Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **9,132** | 14,632 |

## 19. SHARE CAPITAL

### The Company

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| Ordinary shares of HK$0.1 each | **'000** | '000 | **HK$'000** | HK$'000 |
| Authorised | **2,000,000** | 2,000,000 | **200,000** | 200,000 |
| Issued and fully paid | **400,000** | 400,000 | **40,000** | 40,000 |

## 20. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 3 November 2003. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives and/or rewards for their contribution and support to the Company. Under the Share Option Scheme, the Board of Directors of the Company may grant options to the following eligible participants:

(i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries and any entity ("Invested Entity") in which any member of the Group holds any equity interest;

(ii) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries and any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of any member of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any participant is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders.

HK$1 per option is payable on the acceptance of an option offer. Options may be exercised in accordance with the terms of the Share Option Scheme and expiring in accordance with the terms of the Share Option Scheme or the expiry of the tenth anniversary of the Share Option Scheme, whichever is the earlier.

## 20. SHARE OPTION SCHEME (Continued)

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

The Share Option Scheme will remain in force for a period of 10 years commencing on 3 November 2003.

No option had been granted or agreed to be granted under the Share Option Scheme from the date of adoption of the scheme.

## 21. RESERVES

### The Group

| | Share premium | Statutory reserve (note a) | General reserve | Contributed surplus (note b) | Special reserve (note c) | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2003 | 19,730 | 9,030 | 9,029 | – | – | 33,573 | 71,362 |
| Issue of shares by the Company at nil paid and credited as fully paid on reorganisation | – | – | – | 133,865 | – | – | 133,865 |
| Effect of the reorganisation | (19,730) | – | – | (133,865) | 19,608 | – | (133,987) |
| Issue of shares at premium | 69,793 | – | – | – | – | – | 69,793 |
| Share issuance expenses | (10,449) | – | – | – | – | – | (10,449) |
| Capitalisation of share premium | (31,400) | – | – | – | – | – | (31,400) |
| Profit attributable to shareholders | – | – | – | – | – | 62,435 | 62,435 |
| Transfer to reserve | – | 876 | 3,502 | – | – | (4,378) | – |
| As at 31 December 2003 and 1 January 2004 | 27,944 | 9,906 | 12,531 | – | 19,608 | 91,630 | 161,619 |
| Profit attributable to shareholders | – | – | – | – | – | 67,633 | 67,633 |
| Transfer to reserve | – | – | 3,810 | – | – | (3,810) | – |
| As at 31 December 2004 | 27,944 | 9,906 | 16,341 | – | 19,608 | 155,453 | 229,252 |

## 21. RESERVES (Continued)

### The Company

| | Share premium | Statutory reserve (note a) | General reserve | Contributed surplus (note b) | Special reserve (note c) | (Accumulated losses) | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2003 | – | – | – | – | – | – | – |
| Issue of shares by the Company at nil paid and credited as fully paid on reorganisation | – | – | – | 133,865 | – | – | 133,865 |
| Issue of shares at premium | 69,793 | – | – | – | – | – | 69,793 |
| Share issuance expenses | (10,449) | – | – | – | – | – | (10,449) |
| Capitalisation of share premium | (31,400) | – | – | – | – | – | (31,400) |
| Loss attributable to shareholders | – | – | – | – | – | (1,941) | (1,941) |
| As at 31 December 2003 and 1 January 2004 | 27,944 | – | – | 133,865 | – | (1,941) | 159,868 |
| Loss attributable to shareholders | – | – | – | – | – | (4,963) | (4,963) |
| As at 31 December 2004 | 27,944 | – | – | 133,865 | – | (6,904) | 154,905 |

Notes:

(a) Fuqing Pharmaceutical, a wholly-foreign owned enterprise in The People's Republic of China, is required to appropriate at least 10% of after-tax profit (after offsetting prior year losses) to a statutory reserve until the balance of the reserve reaches 50% of its share capital and thereafter any further appropriation is optional. The statutory reserve can be utilised to offset prior year losses, or for the issuance of bonus shares on the condition that the statutory reserve shall be maintained at a minimum of 25% of the share capital after such issuance.

The balance of the statutory reserve has reached 50% of the share capital of Fuqing Pharmaceutical and the board of directors has determined that no further appropriation is necessary unless there is an increase in share capital of Fuqing Pharmaceutical.

(b) The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation prior to listing of the Company's shares in 2003.

(c) The special reserve of the Group represents the differences between the nominal value and premium of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the reorganisation.

## 21. RESERVES (Continued)

Under the Companies Law (revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2004, the Company's reserves available for distribution to shareholders amounted to approximately HK$154,905,000 (2003: HK$159,868,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of HK$27,944,000 (2003: HK$27,944,000) and contributed surplus of HK$133,865,000 (2003: HK$133,865,000), less accumulated losses of HK$4,963,000 (2003: HK$1,941,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

## 22. SEGMENT REPORTING

More than 95% of the operating profits and assets are attributable to the Group's operations, manufacturing and sales of pharmaceutical products in the PRC. Accordingly, no analysis by geographical and business segment is provided.

## 23. COMMITMENTS

### (a) Capital commitments

| | **2004**<br>**HK$'000** | 2003<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | **5,267** | – |
| Authorised but not contracted for – acquisition of property, plant and equipment | **11,320** | – |
| | **16,587** | – |

## 23. COMMITMENTS (Continued)

### (b) Operating lease commitments

As at 31 December 2004, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

| | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|
| Within one year | **440** | 120 |
| Over one year but within five years | **12** | – |
| | **452** | 120 |

## 24. ULTIMATE HOLDING COMPANY

The directors regard Elite Achieve Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

## 25. POST BALANCE SHEET EVENT

On 27 February 2005, Fuqing Pharmaceutical, a subsidiary of the Company, entered into an agreement with an independent third party for the purchase of the formulae, medical approval number and the right of future development of thirty-nine pharmaceutical products for a consideration of RMB43,600,000. As at 31 December 2004, a deposit of RMB8,600,000 was paid.