

## 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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

### (b) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## **2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **(b) Basis of preparation (Continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **(c) 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.

### **(d) Goodwill**

Goodwill represents the excess of the cost of a business combination over the Group's interest in fair value of the identifiable acquiree's assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in income statement.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

## **2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **(e) Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are 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.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, if any, unless the investment is classified as held for sale.

### **(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.

## **2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **(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.

### **(i) Property, Plant and Equipment**

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

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

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 arising from the retirement or 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) Leased assets**

#### **(i) *Classification of assets leased to the group***

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions;

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those building, if later.

#### **(ii) *Assets acquired under finance leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Leased assets (Continued)

#### (iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

### (l) Intangible Asset

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

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the company has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is 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 (where the estimated useful life is other than indefinite) and any identified impairment losses. Patents are amortised on a straight-line basis over their estimated useful lives of five to ten years.

## **2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **(m) Impairment**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment
- intangible assets; and
- investments in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment

#### ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### ***Recognition of impairment losses***

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

#### ***Reversals of impairment losses***

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## **2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **(n) 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.

### **(o) 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.

### **(p) 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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.



## **2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **(q) Employee benefits**

#### **(i) *Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### **(ii) *Share based payments***

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

#### **(iii) *Termination benefits***

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## **2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **(r) 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.

### **(s) Related Parties**

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

## **3. CHANGES IN ACCOUNTING POLICIES**

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3. CHANGES IN ACCOUNTING POLICIES (Continued)

### (a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004.

#### Consolidated balance sheet at 31 December 2004

	As at 31 December 2004 (as previously reported) HK\$'000	Retrospective adjustments HKAS 16 (note 3(d)) HK\$'000	As at 31 December 2004 (as restated) HK\$'000	Prospective adjustments HKFRS 3 (note 3(c)) HK\$'000	As at 1 January 2005 (as restated) HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	53,937	(2,681)	51,256	–	51,256
Lease premium for land	–	2,821	2,821	–	2,821
Intangible asset	11,132	–	11,132	–	11,132
Investment in subsidiaries	–	–	–	–	–
Negative goodwill	(753)	–	(753)	753	–
	64,316	140	64,456	753	65,209
<b>Current assets</b>					
Inventories	6,238	–	6,238	–	6,238
Trade receivable	36,220	–	36,220	–	36,220
Prepayments, deposits and other receivable	13,321	–	13,321	–	13,321
Cash and bank balances	180,605	–	180,605	–	180,605
	236,384	–	236,384	–	236,384
<b>Current liabilities</b>					
Trade payable	9,132	–	9,132	–	9,132
Accruals and other payables	19,926	–	19,926	–	19,926
Taxation payable	2,390	–	2,390	–	2,390
	31,448	–	31,448	–	31,448
<b>Net current assets</b>	204,936	–	204,936	–	204,936
<b>NET ASSETS</b>	269,252	140	269,392	753	270,145
<b>CAPITAL AND RESERVES</b>					
Share capital	40,000	–	40,000	–	40,000
Share premium	27,944	–	27,944	–	27,944
Contributed surplus	9,906	–	9,906	–	9,906
General reserve	16,341	–	16,341	–	16,341
Special reserve	19,608	–	19,608	–	19,608
Retained profits	155,453	140	155,593	753	156,346
Shareholders' equity	269,252	140	269,392	753	270,145

### 3. CHANGES IN ACCOUNTING POLICIES (Continued)

#### (b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

##### (i) Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in profit for the year)		
	HKFRS3 (note3 (c))	HKAS16 (note3 (d))	Total
	HK\$'000	HK\$'000	HK\$'000
Turnover	–	–	–
Cost of sales	–	–	–
Gross profit	–	–	–
Other revenue	(161)	–	(161)
Selling and distribution expenses	–	–	–
General and administrative expenses	–	789	789
Operating profits	(161)	789	628
Finance cost	–	–	–
Profit before taxation	(161)	789	628
Taxation	–	–	–
Profit attributable to shareholders	(161)	789	628
Dividends	–	–	–
	(161)	789	628
Earnings per share – Basic	(0.04) cents	0.20 cents	0.16 cents
<b>Other significant disclosure items:</b>			
Release of negative goodwill	(161)	–	(161)
Depreciation	–	77	77
Reversal of revaluation	–	712	712

### 3. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Estimated effect of changes in accounting policies on the current period (Continued)

(i) Effect on the consolidated financial statements (Continued)

Estimated effect on the consolidated balance sheet at 31 December 2005:

	HKFRS3 (note3 (c)) HK\$'000	Estimated effect of new policy (increase/(decrease) in net assets) HKAS16 (note3 (d)) HK\$'000	HKAS 17 (note3 (d)) HK\$'000	Total HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	–	719	(3,178)	(2,459)
Lease premium for land	–	–	3,320	3,320
Intangible asset	–	–	–	–
Investment in subsidiaries	–	–	–	–
Negative goodwill	592	–	–	592
	592	719	142	1,453
<b>Current assets</b>				
Inventories	–	–	–	–
Trade receivable	–	–	–	–
Prepayments, deposits and other receivable	–	–	–	–
Cash and bank balances	–	–	–	–
	–	–	–	–
<b>Current liabilities</b>				
Trade payable	–	–	–	–
Accruals and other payables	–	–	–	–
Taxation payable	–	–	–	–
	–	–	–	–
<b>Net current assets</b>	–	–	–	–
<b>NET ASSETS</b>	592	719	142	1,453
<b>CAPITAL AND RESERVES</b>				
Share capital	–	–	–	–
Share premium	–	–	–	–
Contributed surplus	–	–	–	–
General reserve	–	–	–	–
Special reserve	–	–	–	–
Exchange reserve	–	7	2	9
Retained profits	592	712	140	1,444
<b>Shareholders' equity</b>	592	719	142	1,453

### **3. CHANGES IN ACCOUNTING POLICIES (Continued)**

#### **(c) Amortisation of negative goodwill (HKFRS 3, Business combinations)**

In prior periods, negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 2(d).

The new policy in respect of negative goodwill has been applied prospectively in accordance with the transitional arrangement under HKFRS 3. As a result, comparative amounts have not been restated, the carrying amount of negative goodwill as at 1 January 2005 has been derecognised, with a corresponding adjustment to the opening balance of retained profits.

#### **(d) Leasehold land and buildings (HKAS 16, Property, plant and equipment and HKAS 17, Leases)**

In prior years, leasehold land and buildings held for own use were stated at revaluated amounts less accumulated depreciation and accumulated impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. In case the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and impairment losses.

Further details of the new policy are set out in note 2(i) and 2(k). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 January 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

All the above new accounting policies relating to leases have been adopted retrospectively. The adjustments for each financial statement line item affected for 31 December 2004 and 2005 are set out in notes 3(a) and 3(b).

### 3. CHANGES IN ACCOUNTING POLICIES (Continued)

(e) **Standards, Interpretations and amendments to published standards effective on or after 1 December 2005 or later periods**

At the date of authorisation of the financial statements, the Group has not early adopted the following standards and interpretations which have been issued but not yet effective. The Directors anticipate that the adoption of these standards or interpretations or amendments in future periods will have no material impact on the financial statements of the Company and the Group.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	The Effect of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK (IFRIC)-Int 4	Determining whether an Arrangement contains a Lease <sup>2</sup>
HK (IFRIC)-Int 5	Rights to interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK (IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment <sup>3</sup>
HK (IFRIC)-Int 7	Applying the Restatement Approach Under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006

## 4. 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:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of pharmaceutical products	259,832	233,897
Other revenue		
Exchange gain	1,681	–
Interest income	693	856
Release of negative goodwill	–	161
Reversal of revaluation	712	–
	3,086	1,017
Total revenue	262,918	234,914

## 5. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interests on bank loan	–	–
Bank charges	2	116
	2	116



## 6. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2005	2004 (restated)
	HK\$'000	HK\$'000
Amortisation of intangible assets	5,328	–
Amortisation of lease premium for land	183	62
Auditors' remuneration	590	480
Cost of inventory	156,120	139,212
Depreciation	6,382	3,015
Less: Amount included in research and development cost	–	(82)
	6,382	2,933
Directors' remuneration		
– Fees	105	160
– Other emoluments	1,397	2,489
Research and development costs	121	530
Staff costs (including directors' remuneration)		
Salaries and allowance	4,957	5,586
Contributions to retirement scheme	737	680
	5,694	6,266
Less: Amount included in research and development cost	–	(229)
	5,694	6,037

## 7. TAXATION

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
PRC enterprise income tax	<b>13,198</b>	13,448

- (i) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2004: Nil).
- (ii) The Group did not have any significant unprovided deferred taxation at 31 December 2005 (2004: Nil).

Reconciliation between tax expense and accounting profit at applicable tax rates:

	<b>2005</b>	2004
	<b>HK\$'000</b>	(restated) HK\$'000
Profit before taxation for the year	<b>79,202</b>	81,076
Notional tax on profit before tax, calculated at the rates, applicable to profits in the countries concerned	<b>11,784</b>	12,038
Tax effect of non-deductible expenses	–	14
Tax effect of non-taxable income	<b>(85)</b>	–
Tax effect of unrecognised tax losses	<b>675</b>	869
Release of negative goodwill	–	(24)
Temporary difference	<b>824</b>	551
Taxation	<b>13,198</b>	13,448

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately HK\$3,852,000 (2004: a loss of HK\$4,963,000) dealt with in the financial statements of the Company.

## **9. DIVIDENDS**

No dividend was paid or proposed by the Company during the year (2004: Nil).

## **10. EARNINGS PER SHARE**

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to shareholders of HK\$66,004,000 (2004 (restated): HK\$67,628,000) and the weighted-average number of 400,000,000 (2004: 400,000,000) 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 (2004: Nil).

## **11. 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\$737,000 (2004: HK\$680,000). As at 31 December 2005, there were no material forfeitures available to offset the Group's future contributions (2004: Nil).

## 12. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	For the year ended 31 December 2005				
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive directors</i>					
Zhong Houtai	—	539	25	21	585
Chai Chung Wai	—	650	—	12	662
Zhong Houyao	—	63	—	1	64
Chong Hoi Fung	—	60	—	—	60
Sun Daquan	—	60	—	—	60
<i>Independent non-executive directors</i>					
Pei Renjiu	30	—	—	—	30
Li Kai Ming	30	—	—	—	30
Cheung Chuen	45	—	—	—	45
	105	1,372	25	34	1,536

	For the year ended 31 December 2004				
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive directors</i>					
Zhong Houtai	—	695	24	21	740
Chai Chung Wai	—	650	—	12	662
Zhong Houyao	—	488	17	7	512
Chong Hoi Fung	—	335	—	—	335
Sun Daquan	—	280	—	—	280
<i>Independent non-executive directors</i>					
Pei Renjiu	58	—	—	—	58
Li Kai Ming	57	—	—	—	57
Cheung Chuen	45	—	—	—	45
	160	2,448	41	40	2,689

## 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2004: All) are directors whose emoluments are disclosed in note 12.

## 14. PROPERTY, PLANT AND EQUIPMENT

### The Group

	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
<b>Cost or valuation</b>							
At 1 January 2004 (restated)	15,723	281	20,132	516	902	–	37,554
Additions	–	8	441	142	390	19,589	20,570
Transfer	19,340	–	–	–	–	(19,340)	–
Restatement under HKAS 17	–	–	–	–	–	(249)	(249)
At 31 December 2004 and 1 January 2005 (restated)	35,063	289	20,573	658	1,292	–	57,875
Exchange adjustments	708	–	395	10	25	–	1,138
Less: Restatement under HKAS 16	3,452	–	–	–	–	–	3,452
Additions	19,794	–	26,224	1,156	–	–	47,174
Transfer	–	–	–	–	–	–	–
At 31 December 2005	59,017	289	47,192	1,824	1,317	–	109,639
<b>Accumulated depreciation</b>							
At 1 January 2004 (restated)	247	–	2,871	202	284	–	3,604
Charge for the year	937	58	1,842	83	95	–	3,015
At 31 December 2004 and 1 January 2005 (restated)	1,184	58	4,713	285	379	–	6,619
Exchange adjustments	72	–	126	6	9	–	213
Less: Restatement under HKAS 16	2,740	–	–	–	–	–	2,740
Charge for the year	2,336	58	3,748	123	117	–	6,382
At 31 December 2005	6,332	116	8,587	414	505	–	15,954
<b>Net book value</b>							
At 31 December 2005	52,685	173	38,605	1,410	812	–	93,685
At 31 December 2004 (restated)	33,879	231	15,860	373	913	–	51,256

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

##### The Company

	Leasehold improvement HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1 January 2004	281	132	413
Additions	8	2	10
<b>At 31 December 2004 and 31 December 2005</b>	<b>289</b>	<b>134</b>	<b>423</b>
<b>Accumulated depreciation</b>			
At 1 January 2004	—	—	—
Provision for the year	58	27	85
<b>At 31 December 2004 and 1 January 2005</b>	<b>58</b>	<b>27</b>	<b>85</b>
Provision for the year	57	27	84
<b>At 31 December 2005</b>	<b>115</b>	<b>54</b>	<b>169</b>
<b>Net book value</b>			
<b>At 31 December 2005</b>	<b>174</b>	<b>80</b>	<b>254</b>
At 31 December 2004	231	107	338

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

## 15. LEASE PREMIUM FOR LAND

	<b>2005</b>	2004
	<b>HK\$'000</b>	(restated) HK\$'000
Beginning of the year	<b>2,821</b>	1,591
Exchange adjustments	<b>52</b>	-
Additions	<b>630</b>	1,043
Restatement under HKAS 17	<b>-</b>	249
Amortisation prepaid lease payment	<b>(183)</b>	(62)
End of the year	<b>3,320</b>	2,821

All the leasehold land is held under medium-term lease and situated in the PRC.

## 16. INTANGIBLE ASSET

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
<b>Patents</b>		
Cost		
At beginning of the year	<b>11,132</b>	-
Exchange adjustments	<b>214</b>	-
Additions during the year	<b>65,962</b>	11,132
At end of the year	<b>77,308</b>	11,132
Accumulated amortisation		
At beginning of the year	<b>-</b>	-
Exchange adjustments	<b>51</b>	-
Provided during the year	<b>5,328</b>	-
At end of the year	<b>5,379</b>	-
Net book value		
At end of the year	<b>71,929</b>	11,132

## 17. INVESTMENT IN SUBSIDIARIES

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	134,065	134,065
Due from subsidiaries	56,380	58,272
	190,445	192,337

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

Details of subsidiaries as at 31 December 2005 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

- \* Fujian 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.



## 18. NEGATIVE GOODWILL

	The Group	
	2005 HK\$'000	2004 HK\$'000
Gross amount		
At beginning of the year	1,612	1,612
Derecognised during the year	(1,612)	–
At end of the year	–	1,612
Released to income		
At beginning of the year	859	698
Released for the year	–	161
Derecognised during the year	(859)	–
At end of the year	–	859
Carrying amount		
At end of the year	–	753

## 19. INVENTORIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Raw material	4,870	3,443
Finished goods	2,591	2,795
Total	7,461	6,238

## 20. 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	
	2005 HK\$'000	2004 HK\$'000
0 to 30 days	35,923	18,293
31 to 60 days	34,122	17,927
	70,045	36,220

## 21. TRADE PAYABLE

The ageing analysis of accounts payable is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
0 to 30 days	18,158	9,132

## 22. SHARE CAPITAL

The Company

	Number of shares		Amount	
	2005 '000	2004 '000	2005 HK\$'000	2004 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised	2,000,000	2,000,000	200,000	200,000
Issued and fully paid	400,000	400,000	40,000	40,000

### 23. 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.

## **23. 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.

## 24. RESERVES

### The Group

	Share premium	Statutory reserve (note a)	General reserve	Special reserve (note c)	Exchange reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2004, as previously reported	27,944	9,906	12,531	19,608	–	91,630	161,619
Restatement under HKAS 17	–	–	–	–	–	145	145
As at 1 January 2004 (restated)	27,944	9,906	12,531	19,608	–	91,775	161,764
Profit attributable to shareholders, as previously reported	–	–	–	–	–	67,633	67,633
Restatement under HKAS 17	–	–	–	–	–	(5)	(5)
Profit attributable to shareholders (restated)	–	–	–	–	–	67,628	67,628
Transfer to reserve	–	–	3,810	–	–	(3,810)	–
As at 31 December 2004 (restated)	27,944	9,906	16,341	19,608	–	155,593	229,392
Adjustment arising from derecognition of negative goodwill	–	–	–	–	–	753	753
As at 1 January 2005 (restated)	27,944	9,906	16,341	19,608	–	156,346	230,145
Profit attributable to shareholders	–	–	–	–	–	66,004	66,004
Transfer to reserve	–	–	3,776	–	–	(3,776)	–
Exchange differences arising from combination	–	–	–	–	4,104	–	4,104
As at 31 December 2005	27,944	9,906	20,117	19,608	4,104	218,574	300,253

## 24. RESERVES (Continued)

### The Company

	Share premium	Contributed surplus (note b)	(Accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2004	27,944	133,865	(1,941)	159,868
Loss attributable to shareholders	–	–	(4,963)	(4,963)
As at 31 December 2004 and 1 January 2005	27,944	133,865	(6,904)	154,905
Loss attributable to shareholders	–	–	(3,852)	(3,852)
As at 31 December 2005	27,944	133,865	(10,756)	151,053

#### 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.

## **24. 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 2005, the Company's reserves available for distribution to shareholders amounted to approximately HK\$151,053,000 (2004: HK\$154,905,000) 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 (2004: HK\$27,944,000) and contributed surplus of HK\$133,865,000 (2004: HK\$133,865,000), less accumulated losses of HK\$10,756,000 (2004: HK\$6,904,000), 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.

## **25. 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.

## **26. FINANCIAL INSTRUMENTS**

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

### **Currency risk**

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi (RMB). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. Hong Kong Dollars against RMB were relatively stable during the year and as a result, the Group considers it has no material foreign risk.

## 26. FINANCIAL INSTRUMENTS (Continued)

### Interest rate risk

The Group does not have substantial interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

### Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of bank and cash balances and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

### Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its commitments over the next year in accordance with its strategic plan.

## 27. COMMITMENTS

### (a) Capital commitments

	<b>2005</b> <b>HK\$'000</b>	2004 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



## 27. COMMITMENTS (Continued)

### (b) Operating lease commitments

As at 31 December 2005, 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:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>7</b>	440
Over one year but within five years	<b>–</b>	12
	<b>7</b>	452

## 28. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions.

### Key management personnel remuneration

Key management personnel are executive directors of the Company. Remuneration for key management personnel is disclosed in note 12:

## 29. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 3.

## 30. ULTIMATE HOLDING COMPANY

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

### **31. ACCOUNTING ESTIMATES AND JUDGEMENTS**

In the process of applying the entity's accounting policies which are described in note 2 to the financial statements, management has made the following judgements that have significant effect on the amount recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

#### **Useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

#### **Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimates by the balance sheet date.

#### **Allowances for bad and doubtful debts**

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.