NOTES TO FINANCIAL STATEMENTS

30 June 2001

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 24 May 2000 under the Companies Law (Revised) of the Cayman Islands. On incorporation, the Company had an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each, one share of which was allotted, issued and fully paid on the same day.

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in August 2000, the Company became the holding company of the companies now comprising the Group on 26 July 2000, except for 福建閩清制藥廠 ("Minqing Factory") which was acquired subsequent to the completion of the Group Reorganisation. This was accomplished by acquiring the entire issued share capital of Far East Global Group Limited ("FEGG"), the then holding company of the subsidiaries now comprising the Group as set out in note 17 to the financial statements (except for Minqing Factory), in consideration of and in exchange for the allotment and issue of 999,999 shares of HK$0.10 each in the share capital of the Company credited as fully paid. Further details of the Group Reorganisation are also set out in note 23 and in the Company's prospectus dated 11 August 2000.

2. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17. There were no changes in the nature of the subsidiaries' principal activities during the year.

The Company is a subsidiary of Great Wall Investment Group Limited ("Great Wall Investment"), a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company as at the balance sheet date.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 26 July 2000. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition, except for Minqing Factory which was acquired subsequent to the completion of the Group Reorganisation and is therefore consolidated from its effective date of acquisition. Accordingly, the consolidated results of the Group for the years ended 30 June 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 July 1999 or since their respective dates of incorporation, where this is a shorter period. The comparative balance sheet as at 30 June 2000 has been prepared on the basis that the existing Group had been in place at that date.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of presentation and consolidation *(continued)*

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

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

Subsidiaries

A subsidiary is a company, not being a joint venture, 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.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is amortised on a straight-line basis over a period of five years.

Revenue recognition

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

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

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

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

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

NOTES TO FINANCIAL STATEMENTS

30 June 2001

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

Where, in the opinion of the directors, the recoverable amount of an asset has declined below its carrying amounts, the carrying amounts is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

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

Leasehold buildings outside Hong Kong	Over the lease terms or 10 years, whichever is shorter
Land premium	Over the land-use-right period
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Construction in progress represents costs incurred for buildings under construction, and plant and machinery pending installation. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is transferred to fixed assets when it is capable of producing a saleable output on a commercial basis.

The gain or loss on disposal or retirement of fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures *(continued)*

The Group's share of the post acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

Investments made by means of joint venture structures which do not result in the Group having joint control with other venturers, where the Group controls the board of directors or equivalent governing body, are accounted for as subsidiaries.

Intangible asset

The intangible asset represents the fair value of the rights to manufacture and sale of certain pharmaceutical products in the People's Republic of China (the "PRC") of a subsidiary ascribed to its net underlying assets acquired by the Group during the year (see note 25(c)).

The intangible asset is amortised on the straight-line basis over the estimated useful commercial life of the pharmaceutical products of five years commencing from the date when the pharmaceutical products are put into commercial production. The intangible asset is stated at cost less accumulated amortisation, and any provision for impairment in value deemed necessary by the directors.

Inventories

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

Related parties

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

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

Pursuant to the relevant regulations of the PRC government, subsidiaries of the Company operating in the PRC have participated in a local municipal government retirement benefits scheme (the "PRC Scheme") whereby the subsidiaries are required to contribute 20% of the basic salaries of their employees to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme. Contributions under the PRC Scheme are charged to the profit and loss account as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Operating leases

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Research and development costs

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

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

Deferred development costs are amortised, using the straight-line basis, over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

During the current and prior year, research and development costs incurred by the Group were not material.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenues and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Foreign currencies

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

On combination, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related companies:

	Notes	**2001**	2000
		HK$'000	*HK$'000*
Advertising expenses paid	*(i)*	**7,302**	5,860
Purchases of packing materials	*(ii)*	**49,019**	37,473
Rental expenses paid	*(iii)*	**1,340**	1,340

Notes:

(i) Advertising expenses paid to 福建德勝廣告有限公司, a related company beneficially owned by Mr. Cai Chong Zhen, a director of the Company, were charged based on the actual costs incurred plus a mark-up of 10%. The balance due to 福建德勝廣告有限公司 amounted to HK$664,000 at 30 June 2001.

(ii) The directors consider that the purchases of packing materials from 福州德勝印刷有限公司, a related company beneficially owned by Mr. Chen Ching Ken, a director of the Company, were made on similar terms obtained from other third party suppliers of the Group and were carried out in the ordinary course of business of the Group. The balance due to 福州德勝印刷有限公司 amounted to HK$4,903,000 at 30 June 2001.

(iii) The rental expenses were paid to 福建德勝實業有限公司 (the "Landlord"), a related company beneficially owned by Mr. Cai Chong Zhen. The rental was determined between the Landlord and the Group with reference to the prevailing market conditions.

(b) During the year, the Group advanced a loan of HK$17,800,000 to Minqing Factory, a non-wholly owned subsidiary of the Company, for repaying its bank indebtedness. The balance due from Minqing Factory amounted to HK$17,800,000 at 30 June 2001 is unsecured, interest-bearing at 8% per annum and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

5. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of trade discounts and returns. All the Group's turnover is principally derived in the PRC.

An analysis of the Group's turnover by activity, disclosed pursuant to the requirements of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), together with other revenue, is as follows:

	2001	2000
	HK$'000	*HK$'000*
Manufacture and distribution of:		
Anti-viral drugs	**208,282**	167,976
Antibiotics	**78,979**	76,959
Vitamins	**42,599**	37,470
Analgesics	**29,009**	25,911
Chinese patent medicines	**24,590**	19,178
Chinese tonic liquor	**26,174**	25,622
Turnover	**409,633**	353,116
Interest income — other revenue	**2,459**	210
Total revenue	**412,092**	353,326

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2001	2000
	HK$'000	*HK$'000*
Auditors' remuneration	**1,050**	1,000
Depreciation	**4,836**	3,683
Amortisation of goodwill	**155**	—
Staff costs (excluding directors' remuneration, *note 7*):		
Wages and salaries	**4,033**	4,046
Bonuses	**—**	2,368
Retirement scheme contributions	**510**	684
	4,543	7,098
Operating lease rentals in respect of land and buildings	**1,496**	1,340
Provision for doubtful debts	**—**	1,982

NOTES TO FINANCIAL STATEMENTS

30 June 2001

6. PROFIT FROM OPERATING ACTIVITIES *(continued)*

The Group's profit from operating activities by principal activity in respect of the Group's operations, which are principally conducted for the PRC market, disclosed pursuant to the Listing Rules is as follows:

	2001	2000
	HK$'000	*HK$'000*
Manufacture and distribution of:		
Anti-viral drugs	**70,882**	57,155
Antibiotics	**17,303**	17,385
Vitamins	**2,019**	1,760
Analgesics	**2,590**	2,329
Chinese patent medicines	**7,678**	6,164
Chinese tonic liquor	**8,493**	8,324
	108,965	93,117

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Fees	**—**	—
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind to executive directors	**5,706**	4,923
Retirement benefits scheme contributions to executive directors	**76**	67
	5,782	4,990

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

	Number of directors	
	2001	2000
Nil — HK$1,000,000	**5**	3
HK$1,000,001 — HK$2,000,000	**2**	2

NOTES TO FINANCIAL STATEMENTS

30 June 2001

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

There were no arrangements under which a director waived or agreed to waive any remuneration.

The five highest paid individuals during the year are all directors, details of whose remuneration are set out above.

No value is included in directors' remuneration in respect of share options granted during the year ended 30 June 2001 because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

During the year, no emoluments were paid by the Group to the directors (including five highest paid individuals) as an inducement to joint, or upon joining the Group, or compensation for loss of office.

8. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest expense on bank loans wholly repayable within five years	**236**	148

9. TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current year provision:		
Overseas	**14,321**	11,308
Tax charge for the year	**14,321**	11,308

Hong Kong profits tax has not been provided (2000: Nil) because the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant approval documents issued by the PRC tax authorities, Fujian Desheng Pharmaceuticals Company Limited ("Desheng"), a subsidiary of the Company, operating in the PRC, is exempted from the PRC corporate income tax for the first two profitable calendar years of operation starting from 1997 and thereafter is eligible for a 50% relief from the PRC corporate income tax for the following three years. The standard PRC corporate income tax rate applicable to Desheng is 24%.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

9. TAX *(continued)*

No provision for the PRC corporate income tax has been provided for Minqing Factory as this subsidiary did not derive any assessable income in the PRC during the year.

Deferred tax has not been provided because there were no significant timing differences at 30 June 2001 (2000: Nil).

No deferred tax has been provided on the revaluation surplus of the Group's properties situated in the PRC because the Group presently does not intend to dispose of such properties.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK16,568,000 (period from 24 May 2000 (date of incorporation) to 30 June 2000: Nil).

11. DIVIDENDS

	2001	2000
	HK$'000	*HK$'000*
Special dividend	**—**	43,037
Proposed final dividend — HK4 cents (2000: Nil) per ordinary share	**14,297**	—
	14,297	43,037

The amount of proposed final dividend is calculated based on 357,424,000 shares in issue as at the date of approval of these financial statements.

Special dividends of a total of HK$43,037,00 for the year ended 30 June 2000 were paid or declared by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as further detailed in note 1 to the financial statements.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$94,541,000 (2000: HK$81,661,000) and the weighted average number of 315,147,945 ordinary shares (2000: Weighted average of 240,000,000 ordinary shares) in issue during the year.

The diluted earnings per share for the year ended 30 June 2001 is based on the net profit from ordinary activities attributable to shareholders of HK$94,541,000 and 318,545,828 shares, which is the weighted average of the shares in issue during the year plus the weighted average of 3,397,883 shares deemed to be issued at no consideration if all of the outstanding share options had been exercised since their respective dates of issue.

There were no potential dilutive ordinary shares in existence during the year ended 30 June 2000 and accordingly, no diluted earnings per share has been presented.

NOTES TO FINANCIAL STATEMENTS

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13. FIXED ASSETS

	Leasehold land and buildings HK$'000	Land premium HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Group								
Cost or valuation:								
At beginning of year	6,356	11,963	5,818	8,967	1,622	—	—	34,726
Additions	—	—	—	—	376	—	66,318	66,694
Acquisition of a subsidiary	7,514	—	—	890	—	586	—	8,990
Revaluation surplus	(366)	5,794	—	—	—	—	—	5,428
At 30 June 2001	13,504	17,757	5,818	9,857	1,998	586	66,318	115,838
Accumulated depreciation:								
At beginning of year	90	—	2,576	6,137	694	—	—	9,497
Provided during the year	1,504	—	1,159	1,763	370	40	—	4,836
Reversal of accumulated depreciation upon revaluation	(1,594)	—	—	—	—	—	—	(1,594)
At 30 June 2001	—	—	3,735	7,900	1,064	40	—	12,739
Net book value:								
At 30 June 2001	13,504	17,757	2,083	1,957	934	546	66,318	103,099
At 30 June 2000	6,266	11,963	3,242	2,830	928	—	—	25,229
An analysis of cost or valuation of the fixed assets held by the Group at 30 June 2001 is as follows:								
At cost	—	—	5,818	9,857	1,998	586	66,318	84,577
At 2001 valuation	13,504	17,757	—	—	—	—	—	31,261
	13,504	17,757	5,818	9,857	1,998	586	66,318	115,838
Company								
Cost:								
Additions during the year and at 30 June 2001	—	—	—	—	238	—	—	238
Accumulated depreciation:								
Provided during the year and at 30 June 2001	—	—	—	—	35	—	—	35
Net book value:								
At 30 June 2001	—	—	—	—	203	—	—	203

NOTES TO FINANCIAL STATEMENTS

30 June 2001

13. FIXED ASSETS *(continued)*

The Group's leasehold land and buildings are all situated outside Hong Kong and are held under medium term leases. All the leasehold land and buildings were revalued by Castores Magi Surveyors Limited ("Castores"), an independent firm of professional valuers, at 30 June 2001 at HK$13,504,000 on a depreciated replacement cost basis. A surplus of HK$1,228,000 arising therefrom and representing the excess of the revalued amounts over the then carrying values of the revalued assets, on an individual asset basis, has been credited to the fixed assets revaluation reserve (note 24).

During the year ended 30 June 2000, the Group entered into an agreement with the Land Administration Bureau of the Yong Tai Country, Fujian Province, the PRC (the "LAB") in respect of the purchase of a parcel of land (the "Old Land") in Yong Tai County, Fujian Province, the PRC for the purposes of erecting a drug production facilities and its related auxiliary facilities. The cost incurred was classified under "Land premium" and has not been depreciated until future construction works thereon are completed and put into commercial use.

During the year, the Group entered into another agreement with LAB in consideration and in exchange for the Old Land by another parcel of land in Yong Tai County, Fujian Province, the PRC (the "New Land"). The land use right certificate of the New Land has been obtained subsequent to the balance sheet date.

The New Land was revalued by Castores at 30 June 2001 at HK$17,757,000 on an open market basis. A surplus of HK$5,794,000 arising therefrom has been credited to the fixed asset revaluation reserve (note 24).

Had the Group's leasehold land and buildings and land premium been stated at costs less accumulated depreciation, they would have been included in the financial statements at approximately HK$21,856,000 (2000: HK$15,156,000).

14. GOODWILL

	Group
	HK$'000
Arising on acquisition of a subsidiary during the year — *note 25(c)*	2,319
Amortisation during the year	(155)
At 30 June 2001	2,164

NOTES TO FINANCIAL STATEMENTS

30 June 2001

15. INTANGIBLE ASSET

	Group
	HK$'000
Cost:	
Arising on acquisition of a subsidiary and at 30 June 2001 — *note 25(c)*	18,164
Accumulated amortisation:	
Provided during the year and at 30 June 2001	—
Net book value:	
At 30 June 2001	18,164

As at 30 June 2001, the products in respect of which the intangible asset was acquired have not yet been put into commercial production and accordingly, no amortisation has been provided.

According to an independent valuation performed by Castores on the basis of Fair Market Value in Continued Use, the fair market value of the intangible asset at 7 March 2001, the date the Group acquired the related subsidiary, amounted to HK$18,164,000.

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets	**131**	—

Particulars of the jointly-controlled entity are set out below:

Name	Business structure	Place of establishment and operations	Paid-up registered capital	Percentage of Ownership interest	Percentage of Voting power	Principal activities
上海邁迪生物技術研究有限公司	Corporate	People's Republic of China	RMB200,000	70%	70%	Not yet commenced business

The jointly-controlled entity did not derive any operational result during the year.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

17. INVESTMENTS IN SUBSIDIARIES

	Company 2001 *HK$'000*
Unlisted shares, at cost	**105,015**

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

Particulars of the subsidiaries are set out below:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up share/registered capital	Equity interests attributable to the Company 2001	Equity interests attributable to the Company 2000	Principal activities
Held directly					
Far East Global Group Limited	British Virgin Islands	US$1,001	**100%**	—	Investment holding
Held indirectly					
Fujian Desheng Pharmaceuticals Company Limited ("Desheng")	People's Republic of China	RMB11,891,923	**100%**	—	Manufacture and distribution of pharmaceutical products
Global Profit Far East Limited	Hong Kong	HK$2	**100%**	—	Investment holding
福建閩清制藥廠 ("Minqing Factory")	People's Republic of China	RMB3,513,000	**85%** *(Note)*	—	Manufacture and distribution of pharmaceutical products

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Note:

Prior to the acquisition of the 85% equity interest in Minqing Factory by the Group, Minqing Factory was a domestic company registered in the PRC and wholly owned by an independent third party in the PRC (the "PRC Partner"). Pursuant to an acquisition agreement dated 7 March 2001 entered into between the Group and the PRC Partner (the "Acquisition Agreement"), the Group acquired a 85% equity interest in Minqing Factory (the "Acquisition") for a consideration of approximately HK$9,688,000 (note 25(c)) which has been fully settled as at 30 June 2001. At the date of this report, the relevant procedures in respect of the transfer of the 85% equity interest in Minqing Factory from the PRC Partner to the Group and the registration of Minqing Factory as a Sino-foreign joint equity enterprise have not been completed. Having considered the legal advice, the directors are of the opinion that the Acquisition Agreement is legally binding and enforceable under the PRC laws and the aforementioned relevant procedures will be duly completed without any obstacle.

Subject to the completion of relevant registration procedures, the name of Minqing Factory will be changed to Fujian Yannian Pharmaceutical Co. Ltd..

In addition, pursuant to a shareholders' agreement entered into between the Group and the PRC Partner, the directors consider that the Group controls the board of directors and governs the financial and operating policies of Minqing Factory and accordingly, it is appropriate to account for Minqing Factory as a subsidiary of the Group.

18. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**6,295**	6,483
Work in progress	**277**	457
Finished goods	**4,338**	5,242
	10,910	12,182

No inventories were stated at net realizable value at 30 June 2001 (2000: Nil).

NOTES TO FINANCIAL STATEMENTS

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19. ACCOUNTS RECEIVABLE

The aging of the Group's accounts receivable is analysed as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Outstanding balances with ages:		
30 days or less	**40,687**	44,681
31 days to 60 days	**35,104**	21,470
61 days to 180 days	**1,125**	8,725
Over 180 days	**2,681**	—
Total	**79,597**	74,876

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for established customers when the terms are extended to 90 days. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. Accounts receivable are recognised and carried at their original invoiced amounts less any provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

20. DUE FROM/(TO) RELATED COMPANIES

Particulars of the amounts due from related companies of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance at 30 June 2001	Maximum amount outstanding during the year	Balance at 30 June 2000
	HK$'000	*HK$'000*	*HK$'000*
Name			
福建德勝廣告有限公司	**(664)**	3,090	2,930
福州德勝印刷有限公司	**(4,903)**	(9,159)	(2,607)
	(5,567)		323

福建德勝廣告有限公司 and 福州德勝印刷有限公司 are beneficially owned by Mr. Cai Chong Zhen and Mr. Chen Ching Ken, directors of the Company, respectively.

The balances with related companies are unsecured, interest-free, and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

21. CASH AND BANK BALANCES

As at 30 June 2001, the Group's cash and bank balances denominated in Renminbi ("RMB") amounted to HK$113,952,000 (2000: HK$33,154,000). RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

22. ACCOUNTS PAYABLE

The aging of the Group's accounts payable is analysed as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Outstanding balances with ages:		
30 days or less	**17,261**	12,922
Over 30 days	**2,225**	145
	19,486	13,067

23. SHARE CAPITAL

	Company	
	2001	2000
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each (2000: 1,000,000 ordinary shares of HK$0.10 each)	**100,000**	100
Issued and fully paid:		
344,000,000 ordinary shares of HK$0.10 each (2000: 1 ordinary share of HK$0.10)	**34,400**	—

The comparative amount of the share capital as at 30 June 2000 as shown on the consolidated balance sheet represents the pro forma issued share capital of the Company after the issue of one ordinary share of HK$0.10 each fully paid on incorporation, the issue of 999,999 ordinary shares credited as fully paid in consideration for the acquisition of the entire issued share capital of FEGG, pursuant to the Group Reorganisation on 26 July 2000, and the capitalisation issue of nil-paid 239,000,000 ordinary shares of HK$0.10 each.

23. SHARE CAPITAL *(continued)*

The following changes in the Company's authorised and issued share capital took place during the period from 24 May 2000 (date of incorporation) to 30 June 2001:

(a) On incorporation, the Company had an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each, one share of which was issued and fully paid on the same day.

(b) On 26 July 2000, as part of the Group Reorganisation, the Company issued an aggregate of 999,999 shares of HK$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of FEGG.

(c) On 26 July 2000, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 999,000,000 shares of HK$0.10 each.

(d) On 26 July 2000, a total of 239,000,000 shares of HK$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their then respective shareholdings at the close of business on that date by way of capitalisation of the sum of HK$23,900,000 standing to the credit of the share premium account of the Company ("Capitalisation Issue"), conditional on the share premium account being credited as a result of the new share issue to the public as detailed in (e) below.

(e) On 23 August 2000, 80,000,000 shares of HK$0.10 each were issued to the public at HK$1.00 each for a total cash consideration, before expenses, of HK$80,000,000. The excess of the consideration received for share issued over their nominal value amounting to approximately HK$72,000,000, before related expenses, was credited to the share premium account.

(f) During the year, 1,000,000 and 3,000,000 share options, which entitled the holders to subscribe for ordinary shares of HK$0.10 each in the Company at price of HK$0.6520 each and HK$0.7696 each and at any time up to 18 January 2011 and 26 March 2011, respectively, were exercised and proceeds of approximately HK$2,962,000 were received by the Company.

(g) On 7 March 2001, the Company, Great Wall Investment and Guotai Junan Securities (Hong Kong) Limited (an independent third party) entered into a placing and subscription agreement in respect of the placing of 15,000,000 ordinary shares of HK$0.10 each in the Company (together with an over-allotment options ("Over-Allotment Options") granted by Great Wall Investment to place on its behalf by Guotai Junan Securities (Hong Kong) Limited of additional shares of the Company up to 5,000,000 shares at a price of HK$1.00 per share) beneficially owned by Great Wall Investment to independent investors at a price of HK$1.00 per share. On completion of the placement, Great Wall Investment subscribed for 20,000,000 new ordinary shares of HK$0.10 each in the Company, including 5,000,000 additional number of shares placed upon the exercise of the Over-Allotment Options, at a price of HK$1.00 per share. The subscription was completed on 19 March 2001 and proceeds of approximately HK$19,777,000, net of related expenses, were received by the Company. The excess of the consideration received for shares issued over their nominal value, amounting to approximately HK$17,777,000, net of related expenses, was credited to the share premium account.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

23. SHARE CAPITAL *(continued)*

The following is a summary of the above movements in the issued share capital of the Company:

	Notes	**Number of shares issued**	**Par value** *HK$'000*
Share allotted and issued at par for cash on incorporation	*(a)*	1	—
Issued capital as at 30 June 2000		1	—
Shares issued as consideration for the acquisition of the entire issued share capital of Far East Global Group Limited pursuant to the Group Reorganisation	*(b)*	999,999	100
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public share issue	*(d)*	239,000,000	—
Pro forma share capital as at 30 June 2000		240,000,000	100
New issue on public listing	*(e)*	80,000,000	8,000
Capitalisation of the share premium account as set out above	*(d)*	—	23,900
Shares issued on exercise of share options	*(f)*	4,000,000	400
Shares issued on placement	*(g)*	20,000,000	2,000
Share capital as at 30 June 2001		344,000,000	34,400

Share options

Pursuant to a share option scheme adopted by the Company on 26 July 2000, the board of directors may, on or before 22 August 2010, at its discretion invite any full-time employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be the higher of 80% of the average of the official closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option and the nominal value of the shares. HK$1 is payable by the grantee upon acceptance of the grant of one option.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

23. SHARE CAPITAL *(continued)*

Share options *(continued)*

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been dully allotted and issued. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the share option scheme.

The share option scheme became effective upon the listing of the Company's shares on the Stock Exchange in August 2000.

Details of the movements in the number of outstanding share options of the Company during the year are summarised as follows:

	Number of share option (in thousands)			Exercise
Exercise price per share	Granted during the year	Exercised during the year	At 30 June 2001	period of share options
HK$0.6520	5,000	(1,000)	4,000	19 January 2001 to 18 January 2011
HK$0.7696	24,000	(3,000)	21,000	27 March 2001 to 26 March 2011
	29,000	(4,000)	25,000	

Proceeds of approximately HK$2,962,000 were received by the Company in respect of the exercise of 4,000,000 share options during the year for the subscription for 4,000,000 ordinary shares in the Company of HK$0.10 each.

The exercise in full of the remaining 25,000,000 share options would, under the present capital structure of the Company, result in the issue of 25,000,000 additional shares in the Company at a total consideration, before issue expenses, of approximately HK$18,770,000.

On 23 August 2001, the Stock Exchange has announced amendments to Chapter 17 of the Listing Rules in respect of share option schemes, which has come into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interest of the Company to terminate the existing share option scheme of the Company adopted on 26 July 2000 and to adopt a new share option scheme. An ordinary resolution will be proposed at the Company's forthcoming shareholders's meeting for the approval of the said adoption of the new share option scheme and termination of the Company's existing share option scheme.

The share options granted by the Company to the grantee under the existing share option scheme will not be affected by the proposed new share option scheme.

NOTES TO FINANCIAL STATEMENTS

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24. RESERVES

	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Fixed assets revaluation reserve	Capital reserve	Retained profits	Total
		Note(a)	*Note(b)*		*Note(c)*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group							
At 1 July 1999	—	5,557	3,799	—	11,022	34,505	54,883
Transfer from retained profits to reserves	—	—	3,755	—	—	(3,755)	—
Revaluation surplus	—	—	—	4,314	—	—	4,314
Net profit for the year	—	—	—	—	—	81,661	81,661
Dividends — *note 11*	—	—	—	—	—	(43,037)	(43,037)
At 30 June 2000 and 1 July 2000	—	5,557	7,554	4,314	11,022	69,374	97,821
Transfer from retained profits to reserves	—	10,048	—	—	—	(10,048)	—
Revaluation surplus — *note 13*	—	—	—	7,022	—	—	7,022
Minority interests thereon — *note 25(b)*	—	—	—	(33)	—	—	(33)
Net profit for the year	—	—	—	—	—	94,541	94,541
Issue of shares	93,330	—	—	—	—	—	93,330
Share issue expenses	(13,952)	—	—	—	—	—	(13,952)
Capitalisation issue of shares	(23,900)	—	—	—	—	—	(23,900)
Dividends — notes 11	—	—	—	—	—	(14,297)	(14,297)
At 30 June 2001	55,478	15,605	7,554	11,303	11,022	139,570	240,532
Company							
Arising on acquisition of FEGG	—	—	—	—	104,915	—	104,915
Issue of shares	93,330	—	—	—	—	—	93,330
Capitalisation issue of shares — *note 23*	(23,900)	—	—	—	—	—	(23,900)
Share issue expenses	(13,952)	—	—	—	—	—	(13,952)
Net profit for the year	—	—	—	—	—	16,568	16,568
Dividends — *note 11*	—	—	—	—	—	(14,297)	(14,297)
At 30 June 2001	55,478	—	—	—	104,915	2,271	162,664

Notes:

(a) Subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

NOTES TO FINANCIAL STATEMENTS

30 June 2001

24. RESERVES *(continued)*

(b) Subsidiaries of the Company established in the PRC are required to transfer 5% to 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure incurred for staff welfare facilities. The statutory public welfare reserve is not available for distribution, except upon liquidation of the subsidiaries.

(c) The capital reserve of the Group represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1, over the nominal value of the share capital of the Company issued in exchange therefor.

The capital reserve of the Company arose as a result of the same Group Reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001	2000
	HK$'000	*HK$'000*
Profit from operating activities	**108,965**	93,117
Depreciation	**4,836**	3,683
Interest income	**(2,459)**	(210)
Provision for doubtful debts	**—**	1,982
Amortisation of goodwill	**155**	—
Decrease in inventories	**1,459**	18,649
Increase in accounts receivable	**(1,690)**	(29,521)
Decrease/(increase) in prepayments, deposits and other receivables	**(14,402)**	141
Decrease in amounts due from a related company	**2,930**	24,195
Increase/(decrease) in accounts payable	**4,332**	(21,021)
Increase in accrued liabilities, deposits received and other payables	**11,446**	2,616
Increase in an amount due to related companies	**2,960**	2,607
Net cash inflow from operating activities	**118,532**	96,238

NOTES TO FINANCIAL STATEMENTS

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25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Share capital and share premium *HK$'000*	Bank loans *HK$'000*	Minority interests *HK$'000*
At 1 July 1999	100	2,327	—
Net cash outflow from financing	—	(2,327)	—
At 30 June and 1 July 2000	100	—	—
Arising on acquisition of a subsidiary	—	17,514	1,299
Minority shareholder's share of:			
Fixed assets revaluation reserve — *note 24*	—	—	33
Net loss for the year	—	—	(133)
Net cash inflow/(outflow) from financing	89,778	(17,514)	—
At 30 June 2001	89,878	—	1,199

(c) Purchase of a subsidiary

	2001 ***HK$'000***	2000 *HK$'000*
Net assets acquired:		
Fixed assets	**8,990**	—
Intangible asset	**18,164**	—
Inventories	**187**	—
Accounts receivable	**3,031**	—
Prepayment, deposits and other receivables	**54**	—
Cash and bank balances	**1**	—
Accounts payable	**(2,087)**	—
Accrued liabilities, deposits received and other payables	**(2,158)**	—
Bank loans	**(17,514)**	—
Minority interests	**(1,299)**	—
	7,369	—
Goodwill on acquisition	**2,319**	—
	9,688	—
Satisfied by:		
Cash consideration	**9,688**	—

NOTES TO FINANCIAL STATEMENTS

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25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Purchase of a subsidiary *(continued)*

Analysis of net outflow of cash and cash equivalent in respect of the purchase of a subsidiary

	2001	2000
	HK$'000	*HK$'000*
Cash consideration	**9,688**	—
Cash and bank balances acquired	**(1)**	—
	9,687	—

The subsidiaries acquired during the year utilised HK$210,000 of the Group's net operating cash flows and HK$17,514,000 for financing activities, but had no significant impact in respect of tax, net returns on investments and servicing of finance, or investing activities.

The subsidiaries acquired during the year made no significant contribution to the Group's turnover and contributed loss of HK$756,000 to the net profit from ordinary activities attributable to the shareholders for the year.

(d) Major non-cash transactions

(i) The Group Reorganisation involved the acquisition of subsidiaries by the issue of shares, further details of which are set out in notes 1, 17 and 23.

(ii) During the year, the Group exchanged its Old Land held in the PRC with an independent third party for the New Land which did not result in any cash flow. Further details are set out in note 13.

NOTES TO FINANCIAL STATEMENTS

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26. COMMITMENTS

As at 30 June 2001, the Group had the following commitments:

(a) The Group had capital commitments of approximately HK$12,339,000 (2000: Nil) in respect of erecting a pharmaceutical manufacturing plant and the purchase of related equipment and machinery. Further details of the pharmaceutical manufacturing plant are set out in note 13.

(b) Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings expiring:

	2001	2000
	HK$'000	*HK$'000*
Within one year	**1,510**	1,340
In the second to fifth years, inclusive	**3,351**	4,691
	4,861	6,031

27. POST BALANCE SHEET EVENTS

On 14 August 2001, the Company and Credit Suisse First Boston (Hong Kong) Limited ("CSFB"), an independent third party, entered into a subscription agreement in relation to the subscription of unlisted and unsecured redeemable convertible bonds of the Company ("Subscription Agreement").

Under the Subscription Agreement, inter alia, (i) the Company agreed to issue and CSFB agreed to purchase convertible bonds with an aggregate principal amount of US$4,000,000 (equivalent to approximately HK$31,200,000) ("Original Tranche 1 Bonds"); (ii) the Company granted to CSFB an option during a limited period, to require the Company to issue additional convertible bonds with an aggregate principal amount of up to US$4,000,000 on substantially the same terms as in the Original Tranche 1 Bonds ("Additional Tranche 1 Bonds") and; (iii) CSFB granted to the Company an option during a limited period after the conversion of the last Original Tranche 1 Bond, to issue and to require CSFB to subscribe and pay for convertible bonds with an aggregate principal amount of up to US$4,000,000 on substantially the same terms as in the Original Tranche 1 Bonds ("Tranche 2 Bonds"). All the convertible bonds bear interest at the rate of 2.5% per annum and are due on 14 August 2004.

The unsecured redeemable convertible bonds of the Company are convertible into ordinary shares of HK$0.10 each in the Company (the "Shares") at a conversion price equal to, at the option of CSFB, either (i) at 125% of the average closing price per Share for the 30 business days immediately prior to (1) the date of the Subscription Agreement in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds; and (2) the date on which Tranche 2 Bonds are issued in respect of the Tranche 2 Bonds, both subject to adjustment (the "Fixed Conversion Price"); or (ii) at 93% of the average of any four consecutive closing prices per Share as selected by CSFB during the 30 business days immediately prior to the date on which the conversion notice of CSFB is received by the Company in respect of the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the Tranche 2 Bonds (the "Floating Conversion Price").

NOTES TO FINANCIAL STATEMENTS

30 June 2001

27. POST BALANCE SHEET EVENTS *(continued)*

Pursuant to the Subscription Agreement, the Company has also granted a subscription right ("the Subscription Right") to CSFB, pursuant to which CSFB is entitled to subscribe for up to 4,741,641 Shares at a subscription price of HK$1.645. The Subscription Right is exercisable by CSFB at any time from 14 August 2001 up to 14 August 2004, both dates inclusive. The Subscription Right has not been exercised by CSFB at the date of this report.

The proceeds of US$4,000,000 (equivalent to approximately HK$31,200,000), before issue expense, derived from the issue of the Original Tranche 1 Bonds, together with the amount of HK$7,800,000 which would be received subject to and upon exercise in full of the Subscription Right, will be used by the Group for capital expenditure in relation to the expansion of its production and manufacturing facilities in relation to pharmaceutical products and general working capital purposes.

On 14 August 2001, CSFB subscribed for Original Tranche 1 Bonds with an aggregate principal amount of US$4,000,000 and proceeds of HK$31,200,000, before issued expenses, were received by the Company. The Company issued 13,424,000 shares thereafter at various prices ranging from HK$0.977 to HK$1.124 per share as a result of the conversion by CSFB on part of the Original Tranche 1 Bonds for an aggregate amount of US$1,800,000 (approximately HK$14,039,000).

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 October 2001.