1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements of Hong Kong Companies Ordinance and the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties.

b) NEW ADOPTION OF THE STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted, for the first time, the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) NEW ADOPTION OF THE STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

The effects on the adoption of the above accounting standards are summarised as follows:

i) The adoption of SSAP 9 (revised) "Events after the balance sheet date" results in a change in accounting policy whereby dividends proposed after the balance sheet date are no longer recognised as a liability at the balance sheet date, while the dividend income proposed or declared by the subsidiaries after the balance sheet date are no longer recognised as income by the parent companies. Proposed dividends are now separately disclosed on the face of the balance sheet within capital and reserves section. This change in accounting policy has been applied retrospectively and comparative figures have been restated.

ii) The adoption of SSAP 26 "Segment reporting" requires comprehensive disclosure of financial information by segments (both business and geographical segments) of the Group. This change in accounting policy has been applied retrospectively and the relevant disclosure has been summarised in Note 4.

iii) The adoption of SSAP 28 "Provisions, contingent liabilities and contingent assets" has no material impact on the reported financial position or results of the Group except that additional disclosures in relation to the nature, timing and movement of the provisions of the Group as at 30 June 2002 have been made.

iv) The adoption of SSAP 29 "Intangible Assets" results in no change to the previously adopted accounting policy and no material impact on the reported financial position or results of the Group.

v) The adoption of SSAP 30 "Business combinations" results in no change to the previously adopted accounting policy where goodwill arising from business combination is amortised to the income statement over its estimated economic life. Goodwill is recognised as non-current asset in the balance sheet and is carried at cost less accumulated amortisation and accumulated impairment losses. The Group will review, at each balance sheet date, the carrying value of goodwill in accordance with SSAP 31 "Impairment of assets" and recognise or reverse an impairment loss, if any.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) NEW ADOPTION OF THE STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 "Accounting for investments in associates", SSAP 14 (revised) "Leases", SSAP 17 "Property, plant and equipment", SSAP 18 "Revenue" and SSAP 21 "Accounting for interests in joint ventures". Other than those disclosed in the respective notes to the financial statements, the Group considers that the consequential changes made to the above SSAPs do not have a material impact on the financial statements of the Group.

Unless otherwise stated, the 2001 comparative figures presented herein have incorporated the effect of the adjustments, where applicable, resulting from the adoption of the new accounting standards above.

c) BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the reorganisation scheme ("Group Reorganisation") which rationalising the structure of the Group for the listing of the Company's Shares on The Stock Exchange of Hong Kong Limited and 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 Fujian Yannian Pharmaceutical Company Limited ("Yannian") (formerly known as 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 2001 and 2002 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.

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

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) SUBSIDIARIES

A subsidiary is an enterprise 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.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

e) JOINTLY-CONTROLLED ENTITIES

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

Jointly-controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

Investment in jointly-controlled entity is stated at cost less provision, if necessary, for any impairment loss in value.

The Group's share of the post acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement 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.

f) GOODWILL

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired at the date of acquisition, is stated at cost and amortised by equal annual instalments over its estimated useful economic life of five years.

Unamortised goodwill is charged to the income statement upon disposal of the relevant subsidiaries.

The carrying amount of goodwill is reviewed annually by the directors and an impairment loss is recognised where considered necessary.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) FIXED ASSETS

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. Independent valuations are performed every three years. In the intervening years, the directors review the carrying amount of the properties and adjustment is made where there has been a material change in value. Increases in valuation are credited to the fixed assets revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Where, in the opinion of the directors, the recoverable amount of an asset has declined below its carrying amounts, the carrying amount 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 estimated useful lives used for this purpose are as follows:

Leasehold land and 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	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) FIXED ASSETS *(Continued)*

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 of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

h) 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.

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.

i) IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Estimated recoverable amount of an asset is the greater of the estimated value from its future use and ultimate disposal, and its net selling price.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

k) TRADE RECEIVABLES

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

l) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

m) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

n) OPERATING LEASES

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases are charged to the income statement on the straight-line basis over the lease terms.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably is technically feasible; the Company intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the Company, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Such development costs are recognised as an asset to the extent of the amount that, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, is probable of being recovered from related future economic benefits. The excess amount is written off as incurred.

p) PROVISIONS

Provision are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

Provisions are reviewed at each balance sheet date 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.

q) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) CONTINGENT LIABILITIES AND CONTINGENT ASSETS *(Continued)*

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

r) REVENUE RECOGNITION

i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

s) FOREIGN CURRENCIES

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

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 currency translation reserve.

t) 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 income statement 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) RETIREMENT SCHEME *(Continued)*

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 income statement as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

u) RELATED PARTIES

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the 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.

v) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) SEGMENT REPORTING *(Continued)*

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. TURNOVER AND OTHER 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.

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Manufacture and distribution of pharmaceutical products	**715,717**	409,633
Other revenue		
Interest income	**2,767**	2,459
Exchange gain	**519**	–
	3,286	2,459
Total revenue	**719,003**	412,092

4. SEGMENT INFORMATION

i) Business segments

The Group is principally engaged in the manufacture and distribution of pharmaceutical products.

4. SEGMENT INFORMATION *(Continued)*

i) Business segments *(Continued)*

An analysis of the Group's performance by business segments, namely 'Manufacture and distribution of pharmaceutical products' and 'Corporate and others' is as follows:

	Manufacture and distribution of pharmaceutical products		**Corporate and others**			**Consolidated total**	
	2002	2001	**2002**	2001		**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*		***HK$'000***	*HK$'000*
External sales	**715,717**	409,633	**-**	**-**	(a)	**715,717**	409,633
Segment results	**181,353**	112,857	**(8,512)**	(6,351)	(b)	**172,841**	106,506
Interest income	**2,703**	1,133	**64**	1,326	(b)	**2,767**	2,459
Interest expense	**-**	(236)	**(520)**	–		**(520)**	(236)
Share of result of a jointly-controlled entity	**(131)**	–	**-**	–		**(131)**	–
Taxation	**(36,395)**	(14,321)	**-**	–		**(36,395)**	(14,321)
Minority interests						**(3,823)**	133
Profit attributable to shareholders						**134,739**	94,541

4. SEGMENT INFORMATION *(Continued)*

i) Business segments *(Continued)*

	Manufacture and distribution of pharmaceutical products		Corporate and others		Consolidated total	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets						
Segment assets	**749,209**	342,694	**86,409**	3,919	**835,618**	346,613
Liabilities						
Segment liabilities	**132,924**	54,511	**1,805**	1,674	**134,729**	56,185
Other information						
Capital expenditure	**16,007**	66,413	**712**	281	**16,719**	66,694
Depreciation	**14,371**	4,792	**216**	44	**14,587**	4,836
Amortisation	**3,210**	155	**-**	–	**3,210**	155
Non-cash expenses other than depreciation and amortisation	**1,631**	–	**203**	–	**1,834**	–
Surplus on revaluation of leasehold land and building recognised directly in equity	**-**	6,989	**-**	–	**-**	6,989

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4. SEGMENT INFORMATION *(Continued)*

i) Business segments *(Continued)*

a) Turnover

	2002	2001
	HK$'000	*HK$'000*
Manufacture and distribution of:		
Anti-viral drugs	**227,412**	208,282
Chinese patent medicines	**113,320**	24,590
Antibiotics	**87,243**	78,979
Anti-hypotensive drugs	**84,769**	–
Vitamins	**59,876**	42,599
Analgesics	**40,741**	29,009
Chinese tonic liquor	**29,591**	26,174
Others	**72,765**	–
	715,717	409,633

b) Profit from operating activities

	2002	2001
	HK$'000	*HK$'000*
Manufacture and distribution of:		
Anti-viral drugs	**75,341**	73,436
Chinese patent medicines	**31,661**	7,980
Antibiotics	**18,066**	18,272
Anti-hypotensive drugs	**20,742**	–
Vitamins	**3,163**	2,542
Analgesics	**3,470**	2,946
Chinese tonic liquor	**9,246**	8,814
Others	**22,367**	–
	184,056	113,990
Corporate and others	**(8,448)**	(5,025)
	175,608	108,965

4. SEGMENT INFORMATION *(Continued)*

ii) Geographical segment

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No geographical segment information is presented as over 90% of the Group's revenue and results are derived from customers based in the PRC.

An analysis of the carrying amount of segment assets and additions to fixed assets by the geographical area in which the assets are located is as follows:

	2002		2001	
	Carrying amount of segment assets	**Additions to fixed assets**	Carrying amount of segment assets	Additions to fixed assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
The PRC, excluding Hong Kong	**749,209**	**16,007**	342,694	66,413
Hong Kong	**86,409**	**712**	3,919	281
	835,618	**16,719**	346,613	66,694

5. PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	*HK$'000*
Auditors' remuneration	**808**	1,050
Depreciation	**14,587**	4,836
Amortisation of intangible assets	**2,747**	–
Amortisation of goodwill	**463**	155
Loss on written off of fixed assets	**237**	–
Staff costs (excluding directors' remuneration, *note 6*):		
Wages and salaries	**6,675**	4,033
Retirement scheme contributions	**1,278**	510
	7,953	4,543
Operating lease rentals in respect of land and buildings	**1,880**	1,496
Provision for doubtful debts	**1,063**	–

6. 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	
	2002	2001
	HK$'000	*HK$'000*
Fees	**-**	–
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind to executive directors	**5,727**	5,706
Retirement benefits scheme contributions to executive directors	**23**	76
	5,750	5,782

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

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**4**	5
HK$1,500,001 – HK$2,000,000	**2**	2

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 2002 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.

7. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest payable on:		
Bank loans wholly repayable within five years	**–**	236
Redeemable convertible bonds	**520**	–
	520	236

8. TAXATION

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current year provision:		
Overseas	**36,395**	14,321
Tax charge for the year	**36,395**	14,321

Hong Kong profits tax has not been provided (2001: 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%.

Fujian Yannian Pharmaceutical Company Limited ("Yannian"), is another subsidiary of the Company operating in the PRC. The PRC corporate income tax rate applicable to Yannian is 24%.

Deferred tax has not been provided because there were no significant timing differences at 30 June 2002 (2001: 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.

9. 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 approximately HK$25,508,000 (2001: HK$16,568,000)

10. DIVIDENDS

	2002	2001
	HK$'000	*HK$'000*
Dividend paid		
– Final dividend for 2001 at HK4 cents (2000: HK$Nil) per ordinary share	**14,297**	–
Dividend proposed		
– Final dividend for 2002 at HK4.5 cents (2001: HK4 cents) per ordinary share	**22,902**	14,297
Total dividends in respect of the year	**22,902**	14,297

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date". To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 30 June 2001 of HK$14,297,000, which was recognised as a current liability at the prior year end, to the proposed final dividends reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce the Company's and Group's current liabilities and increase the reserves previously reported as at 30 June 2001 by HK$14,297,000.

The amount of proposed final dividend is calculated based on 508,932,000 shares (2001: 357,424,000 shares) in issue as at the date of approval of these financial statements.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2002	2001
	HK$'000	*HK$'000*
Earnings:		
Profit attributable to shareholders and earnings for the purposes of basic earnings per share	**134,739**	94,541
Effect of dilutive potential shares:		
Redeemable convertible bonds – interest expenses	**520**	–
Profit attributable to shareholders and earnings for the purposes of diluted earnings per share	**135,259**	94,541

	2002	2001
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**402,331,726**	315,147,945
Effect of dilutive potential shares:		
Share options	**16,192,057**	3,397,883
Redeemable convertible bonds	**12,035,976**	–
Weighted average number of shares for the purposes of diluted earnings per share	**430,559,759**	318,545,828

The computation of diluted earnings per share for the year ended 30 June 2002 does not assume the conversion of the Company's outstanding warrants since its exercise would result in an increase in earnings per share for the year.

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12. FIXED ASSETS

	Leasehold land and buildings HK$'000	Land premium HK$'000	Leasehold improvements 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 1/7/2001								
At cost	–	–	5,818	9,857	1,998	586	66,318	84,577
At professional valuation	13,504	17,757	–	–	–	–	–	31,261
	13,504	17,757	5,818	9,857	1,998	586	66,318	115,838
Currency realignment	112	147	48	82	14	5	550	958
Additions	77	–	556	15,506	580	–	–	16,719
Transfer	34,257	–	–	32,611	–	–	(66,868)	–
Reclassification	–	–	–	–	(1,162)	1,162	–	–
Disposal	–	–	–	–	(246)	–	–	(246)
At 30/6/2002	**47,950**	**17,904**	**6,422**	**58,056**	**1,184**	**1,753**	**-**	**133,269**
Accumulated depreciation								
At 1/7/2001	–	–	3,735	7,900	1,064	40	–	12,739
Currency realignment	–	–	31	66	9	–	–	106
Provided during the year	4,286	269	1,213	8,327	151	341	–	14,587
Reclassification	–	–	–	–	(755)	755	–	–
Written back on disposal	–	–	–	–	(9)	–	–	(9)
At 30/6/2002	**4,286**	**269**	**4,979**	**16,293**	**460**	**1,136**	**-**	**27,423**
Net book value								
At 30/6/2002	**43,664**	**17,635**	**1,443**	**41,763**	**724**	**617**	**-**	**105,846**
At 30/6/2001	13,504	17,757	2,083	1,957	934	546	66,318	103,099
An analysis of cost or valuation of the fixed assets held by the Group at 30 June 2002 is as follows:								
At cost	–	–	6,422	58,056	1,184	1,753	–	67,415
At professional valuation	47,950	17,904	–	–	–	–	–	65,854
	47,950	17,904	6,422	58,056	1,184	1,753	–	133,269

12. FIXED ASSETS *(Continued)*

	Leasehold land and buildings HK$'000	Land premium HK$'000	Leasehold improvements 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
Company								
Cost								
At 1/7/2001	–	–	–	–	238	–	–	238
Additions	–	–	–	–	–	–	–	–
Disposal	–	–	–	–	(238)	–	–	(238)
At 30/6/2002	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Accumulated depreciation								
At 1/7/2001	–	–	–	–	35	–	–	35
Provided during the year	–	–	–	–	–	–	–	–
Written back on disposal	–	–	–	–	(35)	–	–	(35)
At 30/6/2002	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net book value								
At 30/6/2002	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 30/6/2001	–	–	–	–	203	–	–	203

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 assets basis, has been credited to the fixed assets revaluation reserve (note 23).

12. FIXED ASSETS *(Continued)*

The Group entered into an agreement with the Land Administration Bureau of the Yong Tai County, 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". During the year ended 30 June 2001, 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. 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 assets revaluation reserve (note 23).

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$51,806,000 (2001: HK$21,856,000).

13. GOODWILL

	Group *HK$'000*
Cost	
At 1/7/2001 and 30/6/2002	2,319
Amortisation	
At 1/7/2001	155
Provided for the year	463
At 30/6/2002	618
Net book value	
At 30/6/2002	1,701
At 30/6/2001	2,164

14. INTANGIBLE ASSETS

	Group
	HK$'000
Cost	
At 1/7/2001 *(note (a))*	18,164
Currency realignment	151
Addition *(note (b))*	21,673
At 30/6/2002	39,988
Amortisation	
At 1/7/2001	–
Provided for the year	2,747
At 30/6/2002	2,747
Net book value	
At 30/6/2002	37,241
At 30/6/2001	18,164

Notes:

a) 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.

b) As at 30 June 2002, 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 for the intangible asset acquired during the year.

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2002 HK$'000	2001 HK$'000
Share of net assets	**-**	131
Amount due from a jointly-controlled entity	**534**	–
	534	131
Less: Provision for impairment	**(534)**	–
	-	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

16. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**105,015**	105,015
Due from subsidiaries	**287,593**	83,163
	392,608	188,178

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

16. INTERESTS IN SUBSIDIARIES *(Continued)*

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 2002	2001	Principal activities
Held directly					
Far East Global Group Limited ("FEGG")	British Virgin Islands	US$1,001	**100%**	100%	Investment holding
Held indirectly					
Fujian Desheng Pharmaceuticals Company Limited ("Desheng")	People's Republic of China	RMB11,891,923	**100%**	100%	Manufacture and distribution of pharmaceutical products
Global Profit Far East Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Fujian Yannian Pharmaceutical Company Limited ("Yannian") (Formerly known as Minqing Factory)	People's Republic of China	RMB3,513,000	**85%**	85%	Manufacture and distribution of pharmaceutical products

17. INVENTORIES

	Group 2002 HK$'000	2001 HK$'000
Raw materials	**31,780**	6,295
Work in progress	**253**	277
Finished goods	**14,670**	4,338
	46,703	10,910

No inventories were stated at net realisable value at 30 June 2002 (2001: Nil).

18. ACCOUNTS RECEIVABLE

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Outstanding balances with ages:		
30 days or less	**88,071**	40,687
31 days to 60 days	**79,440**	35,104
61 days to 180 days	**10,323**	1,125
Over 180 days	**-**	2,681
Total	**177,834**	79,597

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.

19. CASH AND BANK BALANCES

As at 30 June 2002, the Group's cash and bank balances denominated in Renminbi ("RMB") amounted to approximately HK$381,563,000 (2001: HK$113,952,000). 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.

20. ACCOUNTS PAYABLE

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Outstanding balances with ages:		
30 days or less	**65,004**	17,261
Over 30 days	**952**	2,225
	65,956	19,486

21. REDEEMABLE CONVERTIBLE BONDS

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 per Share equal to, at the option of CSFB, (i) at 125% of the average closing price per Share for the 30 business days immediately prior to the date of the Subscription Agreement in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds, and HK$1.91 per Share in respect of the Tranche 2 Bonds, both subject to adjustment; 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 and the Additional Tranche 1 Bonds, and 91% 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 Tranche 2 Bonds.

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 per Share. The Subscription Right is exercisable by CSFB at any time from 14 August 2001 to 14 August 2004, inclusive.

On 14 August 2001 and 17 December 2001, CSFB subscribed for Original Tranche 1 Bonds and Additional Tranche 1 Bonds with an aggregate principal amount of US$8,000,000 and proceeds of approximately HK$62,400,000, before issued expenses, were received by the Company. The Company issued 53,898,000 Shares thereafter at various prices ranging from HK$0.977 per Share to HK$1.267 per Share as a result of the conversion by CSFB of the Original Tranche 1 Bonds and Additional Tranche 1 Bonds for an aggregate amount of US$8,000,000 (approximately HK$62,400,000). The excess of the conversion price over the nominal value of Shares issued, amounting to approximately HK$56,981,000, before related expenses, had been credited to the share premium account.

21. REDEEMABLE CONVERTIBLE BONDS *(Continued)*

On 14 December 2001, the Company exercised an option granted by CSFB to require CSFB to subscribe and pay for Tranche 2 Bonds with an aggregate principal amount of US$4,000,000. Proceeds of approximately HK$31,200,000, before issued expenses, were received by the Company. Tranche 2 Bonds were issued on 10 January 2002. The Company issued 16,584,000 shares thereafter at the prices ranging from HK$1.846 per Share to HK$1.91 per Share as a result of the conversion by CSFB of the Tranche 2 Bonds for an aggregate amount of US$4,000,000 (approximately HK$31,200,000). The excess of the conversion price over the nominal value of Shares issued, amounting to approximately HK$29,517,000, before related expenses, had been credited to the share premium account.

22. SHARE CAPITAL

	Company	
	2002	2001
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each (2001: 1,000,000,000 ordinary shares of HK$0.10 each)	**100,000**	100,000
Issued and fully paid:		
508,932,000 ordinary shares of HK$0.10 each (2001: 344,000,000 ordinary share of HK$0.10 each)	**50,893**	34,400

22. SHARE CAPITAL *(Continued)*

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

	Number of Share issued	Par value *HK$'000*
Share allotted and issued at par for cash on incorporation	1	–
Issued capital as at 30 June 2000	1	–
Shares issued as consideration for the acquisition of the entire issued share capital of FEGG pursuant to the Group Reorganisation	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	239,000,000	–
Pro forma share capital as at 30 June 2000	240,000,000	100
New issue on public listing	80,000,000	8,000
Capitalisation of the share premium account as set out above	–	23,900
Shares issued on exercise of share options	4,000,000	400
Shares issued on placement	20,000,000	2,000
Share capital as at 30 June 2001	344,000,000	34,400
Shares issued on conversion of redeemable convertible bonds *(note (a))*	70,482,000	7,048
Shares issued on placements *(notes (b) and (c))*	80,000,000	8,000
Shares issued on exercise of share options *(notes (d) and (e))*	14,450,000	1,445
Share capital as at 30 June 2002	508,932,000	50,893

22. SHARE CAPITAL *(Continued)*

The following changes in the Company's issued share capital took place during the year ended 30 June 2002:

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

In August 2001, December 2001 and January 2002, the Company issued and allotted an aggregate of 70,482,000 new Shares at price ranging from HK$0.977 per Share to HK$1.91 per Share as a result of the exercise of the conversion rights of the redeemable convertible bonds.

(b) On 27 November 2001, the Company, Great Wall Investment Group Limited and Guotai Junan Securities (Hong Kong) Limited (an independent third party) entered into a placing and subscription agreement in respect of the placing of 20,000,000 Shares beneficially owned by Great Wall Investment to independent investors at a price of HK$1.36 per Share. On completion of the placement, Great Wall Investment subscribed for 20,000,000 new Shares at a price of HK$1.36 per Share and proceeds of approximately HK$27,200,000, before related expenses, were received by the Company. The excess of the consideration received for Shares issued over their nominal value, amounting to approximately HK$25,200,000, before related expenses, was credited to the share premium account.

(c) On 8 May 2002, 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 60,000,000 Shares beneficially owned by Great Wall Investment to independent investors at a price of HK$2.45 per Share. On completion of the placement, Great Wall Investment subscribed for 60,000,000 new Shares at a price of HK$2.45 per Share and proceeds of approximately HK$147,000,000, before related expenses, were received by the Company. The excess of the consideration received for Shares issued over their nominal value, amounting to approximately HK$141,000,000, before related expenses, was credited to the share premium account.

(d) During the year, 1,000,000 and 8,710,000 share options, which entitled the holders to subscribe for Shares at price of HK$2.185 per Share and HK$2.3 per Share and at any time up to 8 January 2012 and 23 April 2012, respectively, were exercised and proceeds of approximately HK$22,218,000, before related expenses, were received by the Company. The excess of the consideration received for Shares issued over their nominal value, amounting to approximately HK$21,247,000, before related expenses, was credited to the share premium account.

(e) CSFB is entitled to subscribe for up to 4,741,641 Shares at a subscription price of HK$1.645 per Share pursuant to the Subscription Right. The Subscription Right is exercisable by CSFB at any time from 14 August 2001 to 14 August 2004, inclusive.

On 16 January 2002, the Subscription Right was exercised by CSFB and resulted in the issue of 4,740,000 Shares and proceeds of approximately HK$7,800,000, before related expenses, had been received by the Company. The excess of the consideration received for Shares issued over their nominal value, amounting to approximately HK$7,323,000, before related expenses, was credited to the share premium account.

22. SHARE CAPITAL *(Continued)*

Share options

The Company operates a option scheme, further details of which are set out under the heading "Share option" in the Report of the Directors.

Details of share options are as follows:

Name of category of participant	Date of grant	Exercise period	Exercise price per share HK$	Balance at 1/7/2001	Granted during the year	Exercised during the year	Balance at 30/6/2002
Directors	19/1/2001	19/1/2001 to 18/1/2011	0.652	4,000,000	–	–	4,000,000
	27/3/2001	27/3/2001 to 26/3/2011	0.7696	21,000,000	–	–	21,000,000
Employees	21/1/2002	9/1/2002 to 8/1/2012	2.185	–	28,000,000	(1,000,000)	27,000,000
	26/4/2002	24/4/2002 to 23/4/2012	2.300	–	2,000,000	(2,000,000)	–
Entities providing consultancy services	26/4/2002	24/4/2002 to 23/4/2012	2.300	–	4,330,000	(4,330,000)	–
	2/5/2002	24/4/2002 to 23/4/2012	2.300	–	2,380,000	(2,380,000)	–
				25,000,000	36,710,000	(9,710,000)	52,000,000

Warrants

Pursuant to an ordinary resolution passed in the extraordinary general meeting of the Company held on 29 April 2002, a bonus issue of warrants was distributed among the shareholders of the Company whose names were in the Register of Members of the Company on 29 April 2002 on the basis of one warrant for every five Shares then held by them. Each warrant will entitle the holder thereof to subscribe for new Shares at an initial subscription price of HK$2.62 per Share, subject to adjustment, at any time between the date when dealings in the warrants on the Stock Exchange commence on 7 May 2002 and 6 May 2003 (both days inclusive). Any shares falling to be issued upon the exercise of the subscription rights attaching to the bonus warrants will rank pari passu in all respects with the fully paid shares in issue on the relevant subscription date.

30 June 2002

23. RESERVES

	Share premium	Statutory surplus reserve Note (a)	Statutory public welfare reserve Note (b)	Fixed assets revaluation reserve	Currency translation reserve	Capital reserve Note (c)	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Group								
At 1/7/2000	–	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 12*	–	–	–	7,022	–	–	–	7,022
Minority interests thereon – *note 24(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 – *note 10*	–	–	–	–	–	–	(14,297)	(14,297)
At 30/6/2001 and 1/7/2001	55,478	15,605	7,554	11,303	–	11,022	139,570	240,532
Change in accounting policy with respect to dividends – *note 10*	–	–	–	–	–	–	14,297	14,297
At 30/6/2001 and 1/7/2001, as restated	55,478	15,605	7,554	11,303	–	11,022	153,867	254,829
Transfer from retained profits to reserves	–	12,082	–	–	–	–	(12,082)	–
Net profit for the year	–	–	–	–	–	–	134,739	134,739
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	–	1,593	–	–	1,593
Minority interests thereon – *note 24(b)*	–	–	–	–	(10)	–	–	(10)
Issue of shares	281,268	–	–	–	–	–	–	281,268
Share issue expenses	(2,364)	–	–	–	–	–	–	(2,364)
Expenses for redeemable convertible bonds	(10,794)	–	–	–	–	–	–	(10,794)
Change in accounting policy with respect to dividends – *note 10*	–	–	–	–	–	–	(14,297)	(14,297)
At 30/6/2002	**323,588**	**27,687**	**7,554**	**11,303**	**1,583**	**11,022**	**262,227**	**644,964**
Representing:								
The Company and subsidiaries	323,588	27,687	7,554	11,303	1,583	11,022	262,358	645,095
Jointly- controlled entity	–	–	–	–	–	–	(131)	(131)
	323,588	27,687	7,554	11,303	1,583	11,022	262,227	644,964

23. RESERVES *(Continued)*

	Group 2002 HK$'000	Group 2001 HK$'000
Representing:		
Reserves	**622,062**	240,532
Proposed dividend	**22,902**	14,297
	644,964	254,829

	Share premium HK$'000	Statutory surplus reserve Note (a) HK$'000	Statutory public welfare reserve Note (b) HK$'000	Fixed assets revaluation reserve HK$'000	Currency translation reserve HK$'000	Capital reserve Note (c) HK$'000	Retained profits HK$'000	Total HK$'000
Company								
Arising on acquisition of FEGG	–	–	–	–	–	104,915	–	104,915
Net profit for the year	–	–	–	–	–	–	16,568	16,568
Issue of shares	93,330	–	–	–	–	–	–	93,330
Share issue expenses	(13,952)	–	–	–	–	–	–	(13,952)
Capitalisation issue of shares	(23,900)	–	–	–	–	–	–	(23,900)
Dividends – *note 10*	–	–	–	–	–	–	(14,297)	(14,297)
At 30/6/2001 and 1/7/2001	55,478	–	–	–	–	104,915	2,271	162,664
Change in accounting policy with respect to dividends – *note 10*	–	–	–	–	–	–	14,297	14,297
At 30/6/2001 and 1/7/2001, as restated	55,478	–	–	–	–	104,915	16,568	176,961
Net profit for the year	–	–	–	–	–	–	23,237	23,237
Issue of shares	281,268	–	–	–	–	–	–	281,268
Share issue expenses	(2,364)	–	–	–	–	–	–	(2,364)
Expenses for redeemable convertible bonds	(10,794)	–	–	–	–	–	–	(10,794)
Change in accounting policy with respect to dividends – *note 10*	–	–	–	–	–	–	(14,297)	(14,297)
At 30/6/2002	**323,588**	**-**	**-**	**-**	**-**	**104,915**	**25,508**	**454,011**

23. RESERVES *(Continued)*

	Company	
	2002	2001
	HK$'000	*HK$'000*
Representing:		
Reserves	**431,109**	162,664
Proposed dividend	**22,902**	14,297
	454,011	176,961

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.

(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 2(c), 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.

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

a) Reconciliation of profit before taxation and minority interests to net cash inflow from operating activities

	2002	2001
	HK$'000	*HK$'000*
Profit before taxation and minority interests	**174,957**	108,729
Share of result of a jointly-controlled entity	**131**	-
Depreciation	**14,587**	4,836
Interest income	**(2,767)**	(2,459)
Interest expenses	**520**	236
Provision for doubtful debts	**1,063**	–
Loss on written off of fixed assets	**237**	–
Provision for impairment of a jointly-controlled entity	**534**	–
Amortisation of goodwill and intangible assets	**3,210**	155
(Increase)/decrease in inventories	**(35,703)**	1,459
Increase in accounts receivable	**(99,418)**	(1,690)
Decrease/(increase) in prepayments, deposits and other receivable	**14,302**	(14,402)
Decrease in amounts due from a related company	**-**	2,930
Increase in accounts payable	**46,308**	4,332
(Decrease)/increase in accrued liabilities, deposits received and other payables	**(36)**	11,446
Increase in amount due to related companies	**4,127**	2,960
Increase in amount due to directors	**546**	–
Net cash inflow from operating activities	**122,598**	118,532

24. 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*	Redeemable convertible bonds *HK$'000*	Minority interests *HK$'000*
At 1/7/2000	100	–	–	–
Arising on acquisition of a subsidiary	–	17,514	–	1,299
Minority shareholder's share of:				
Fixed assets revaluation reserve – *note 23*	–	–	–	33
Net loss for the year	–	–	–	(133)
Net cash inflow/(outflow) from financing	89,778	(17,514)	–	–
At 30/6/2001 and 1/7/2001	89,878	–	–	1,199
Minority shareholder's share of:				
Currency translation reserve – *note 23*	–	–	–	10
Net profit for the year	–	–	–	3,823
Net cash inflow from financing	191,057	–	93,546	–
Conversion of redeemable convertible bonds	93,546	–	(93,546)	–
At 30/6/2002	374,481	–	–	5,032

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

c) Purchase of a subsidiary

	2002	2001
	HK$'000	*HK$'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

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

	2002	2001
	HK$'000	*HK$'000*
Cash consideration	-	9,688
Cash and bank balances acquired	-	(1)
	-	9,687

25. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

	Notes	2002 HK$'000	2001 HK$'000
Advertising expenses paid	(i)	**16,520**	7,302
Purchases of packing materials	(ii)	**75,470**	49,019
Rental expenses paid	(iii)	**1,351**	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%. There is no balance due to 福建德勝廣告有限公司 amounted to HK$Nil at 30 June 2002. (2001: Due to HK$664,000)

(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 approximately HK$9,740,000 at 30 June 2002. (2001: approximately HK$4,903,000)

(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.

26. COMMITMENTS

As at 30 June 2002, the Group had the following commitments:

(a) The Group had no material capital commitments (2001: capital commitments of approximately HK$12,339,000 in respect of erecting a pharmaceutical manufacturing plant and the purchase of related equipment and machinery).

(b) Future aggregate minimum lease payments under operating leases in respect of land and buildings as follows:

	2002 HK$'000	2001 HK$'000
Within one year	**2,230**	1,510
In the second to fifth year inclusive	**3,198**	3,351
	5,428	4,861

27. POST BALANCE SHEET EVENTS

Pursuant to a sale and purchase agreement dated 15 July 2002, the Group acquired 10 shares of US$1 each in Boomtown Ventures Limited ("Boomtown"), representing 100% of the issued share capital of Boomtown at a consideration of HK$30 million. Through its interest in Boomtown, the Group indirectly holds 100% interest in Xiamen Talent Biotech Company Limited, which is mainly engaged in the production of external diagnosis test medical samples, research on bio-medical samples, production and technology services and production of bio-medical products.

Pursuant to three sale and purchase agreements dated 20 August 2002, the Group acquired 95.8% equity interest in Shanghai Penta Ocean Medical and Health Care Food Company Limited ("Penta Ocean"), at a consideration of RMB23,950,000. Penta Ocean is mainly engaged in the manufacture of tonic drink in the PRC.

28. COMPARATIVE FIGURES

Certain 2001 comparative figures have been reclassified to conform to the current year's presentation.