FAR EAST PHARMACEUTICAL TECHNOLOGY COMPANY LIMITED

(Provisional Liquidators Appointed)

遠東生物制藥科技有限公司

（已委任臨時清盤人）

(Stock Code: 399)

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2007

CONTENTS

MESSAGE FROM CHAIRMAN

BUSINESS REVIEW

The Group's turnover for the year ended 30 June 2007 amounted to approximately HKD83 million, representing a 159% increase from the year ended 30 June 2006. This significant increase was mainly attributable by the establishment of a co-operative joint venture in the PRC in April 2007 to distribute pharmaceutical and health care products and the addition of new management team members.

Co-operative Joint Venture

Following the appointment of the Provisional Liquidators on 22 September 2004, an investor, Best Champion Holdings Limited ("the Investor"), had been identified for the restructuring of the Group. A proposal for the resumption of the trading in the shares of the Company was submitted to the Stock Exchange of Hong Kong Limited in March 2006. Since then, arrangements have been made to reactivate the operations of the Group.

In March 2006, in order to further expand the business of the Group, the Company, through one of its subsidiaries, entered into a co-operative agreement with a strategic partner, Telier Marketing and Planning Company Limited (山東特利爾營銷策劃有限公司) ("Telier"), for the distribution of pharmaceutical and health care products in the People's Public of China ("PRC").

Pursuant to the co-operative agreement, a co-operative joint venture ("CJV"), 80% owned by the Company and 20% owned by Telier, would be established for the marketing and distribution of the medicines procured by Telier in the PRC.

Telier is engaged in the business of distribution of medicines, and has been in this business for approximately 5 years. Telier has a strong distribution network covering more than 1,000 distributors, hospitals/clinics and retail drug stores in more than 105 cities covering 13 provinces in the PRC.

The setting up of the CJV allows Telier to explore higher margin pharmaceutical markets (e.g. sale of Laolaishou products as described below and overseas pharmaceutical market) by leveraging on the experienced management team of the Group and the fund raising ability of the Company after the resumption of trading in shares of the Company. At the same time, the Group can leverage on the domestic sales and distribution network of Telier for distribution of the pharmaceutical and health care products procured by the Group.

The CJV was legally set up in April 2007. The CJV utilized the distribution network of Telier to sell the medicines procured by Telier. During the period from April 2007 to June 2007, the CJV has achieved a good result that its turnover amounted to approximately HKD53 million (i.e. approximately HKD17.6 million per month). It is expected that the annual turnover of the CJV will be HKD248 million and HKD261 million for the financial years ending 30 June 2008 and 2009.

New Senior Management Team

Two high caliber personnel, Mr. Lau Ching Kei and Dr. Dong Hui were appointed during the year as directors of a subsidiary of the Company to manage the operations of the Group particularly the CJV.

Mr. Lau and Dr. Dong have extensive experience in operations and management, especially in the pharmaceutical industry. Mr. Lau had acted as executive directors and consultants for companies in various industries including finance, manufacturing, pharmaceutical and retail in Mainland China and Hong Kong.

Dr. Dong holds the qualification of doctor in science and had acted as an executive director of various pharmaceutical companies in the PRC and Hong Kong.

Under the management of Mr. Lau and Dr. Dong, the CJV has achieved satisfactory result for the 3 months to June 2007.

FUTURE BUSINESS OPERATIONS

In order to further improve and enhance the business of the Group, the CJV has also been appointed by Jinan Laolaishou Biotech Company Limited (濟南老來壽生物科技有限公司) ("Laolaishou") as its exclusive distributor in the PRC (including Hong Kong).

Laolaishou is mainly engaged in the research, manufacturing, and distribution of the pharmaceutical products and health food products. Laolaishou's brandname is well known in the Northern part of China in health care products. Currently, Laolaishou owns eight pharmaceutical licenses, three health products, two manufacturing rights of patented health food products, namely 老來壽膠囊 (Laolaishou Capsule) and 開元唐泰膠囊 (Kaiyuantangtai Capsule), and other patents in the application stage.

The first patented health food product of Laolaishou, 老來壽膠囊 (Laolaishou Capsule) was launched in 2003. Laolaishou has successfully built its distribution network by first creating the concept of "Laolaishou Health Club", which focuses on the marketing of medical service.

Since 2003, "Laolaishou Health Club" has expanded nation-wide with more than 290 Laolaishou Health Clubs and dedicated shops in more than 105 cities covering 13 provinces in the PRC by mainly entering into licence agreements with those shop owners or business operators. The licence period is one year and is renewable subject to the consent of both Laolaishou and the licensee. At present, Laolaishou has over 1 million "Laolaishou Health Club" memberships providing a unique and captive market place.

The success of "Laolaishou Health Club" has not only made the 老來壽膠囊 (Laolaishou Capsule) profitable with gross margin of about 65%, but also created a reputation of its products ("LLS products"). Sales of LLS products were RMB18 million for 2006 and is expected to reach RMB24 million for 2007.

In December 2006, the Group has entered into a legally binding co-operating agreement with Laolaishou and followed by a supplementary agreement in March 2007 that, upon the resumption of the trading in shares of the Company, the CJV will be responsible for the exclusive distribution of all over-the-counter pharmaceutical and healthcare products of Laolaishou. In addition, Laolaishou also granted the CJV the first right of refusal to distribute its 9 products which are currently under research.

MESSAGE FROM CHAIRMAN

During the period from 1 January 2007 to 30 June 2007, the new management of the Group have successfully assisted in introducing new sales orders over the sum of RMB50 million for Laolaishou, through the Group's existing business network or the promotional programs initiated by the CJV.

Due to the success of introducing new orders for LLS products, Laolaishou finally agreed to enter into an exclusive distribution agreement and a trademark licence agreement with the CJV on 20 August 2007. Under the agreement, upon the successful resumption of trading in shares of the Company, the CJV will become the sole agent having the exclusivity right for distributing the products of Laolaishou in the PRC. In addition, the CJV will also become the sole licensee for operating "Laolaishou Health Club" in the PRC. In consideration, Laolaishou will be entitled to a licence fee calculated at 35% of the wholesale price of the LLS products sold by the CJV and a fixed monthly operating fee. The CJV will guarantee a minimum annual wholesale turnover of LLS products at an amount of not less than RMB40 million per annum. Upon the expiry of the existing licence agreements between Laolaishou and its existing licensees in 2008, the CJV will either enter into a new licence agreement with each of these licensees or will negotiate with the licensees to consider assimilating them into the Group. Furthermore, the CJV will utilize the funds raised by the Company to set up its own Laolaishou Health Clubs and dedicated shops in other selected locations in the PRC. The directors believe that the setting up of own retail shops of the CJV and the assimilation of the existing licensed shops into the CJV will substantially enhance the profit margin of the Group mainly due to the capture of the retail sales margin into the Group.

The sales of LLS products are expected to achieve an annual growth rate of over 40% per annum. Distribution of LLS products with gross margin of about 65% is expected to help in improving the Group's profitability.

The Directors believe that LLS products have not reached their optimum growth potential. By leveraging on the financial strength, international management team, distribution network and the overseas platform of the Group after the resumption of trading in shares of the Company, it is believed that the following vital new initiatives can be achieved to provide better long term benefits to both Laolaishou and the CJV:

- a repositioning of the "LLS products" business in Mainland China;
- opening of new pharmaceutical retail shops and Laolaishou Health Clubs;
- reactivate and expand existing manufacturing capacity to support the Group's business growth in Mainland China and potentially in Hong Kong; and
- set up of new information accounting and technology system to support the Group's business growth. An international consulting firm has been appointed to assist in establishing a new internal control and management information system for the Group.

With the achievement of the above targets, the Directors believe that it will create substantial value for the shareholders of the Company in the future.

In summary, the Company will spend efforts in marketing, advertising, brand building and standardization of Laolaishou Health Clubs and shops currently run by Laolaishou's licensees. The Company will leverage on the current distribution network of Laolaishou and the CJV through either existing shops assimilation or licensing, setting up of own shops and leverage on the CJV's distribution network to strengthen LLS products distribution channels and to increase the product mix. At the same time, Laolaishou will continue concentrating on research and development in which they are particularly strong at. The Company will continue to enhance its current production facilities for manufacturing of LLS products and some of the products currently distributed through CJV.

The abovementioned business expansion plan of Laolaishou Health Clubs has been presented to the investor and an investment arm of an international financial institution to explore their interest in investing in the Company. In August, 2007, due to the successful implementation of the abovementioned milestones, the Company has successfully secured the Investor undertakes to inject additional new fresh equity capital of HKD60 million into the Company with the support from an international financial institution for the Laolaishou Health Clubs business expansion plan upon the resumption of the trading in the shares of the Company. In summary, upon the resumption of the trading in shares of the Company, the total equity capital to be injected into the Company by the Investor will amount to HKD150 million in cash.

MARKET TREND

The Group expects that the pharmaceutical industry in the PRC will have a steady growth due to increased public awareness of the importance of healthcare and greater aging population that would require more healthcare coupled with China's GDP increase resulting in increase in income per capita, more money will be spent on healthcare products such as pharmaceutical and health supplements which create considerable opportunities for the pharmaceutical industry in the PRC.

Sales of pharmaceuticals

The pharmaceutical market in China has been growing rapidly especially in the recent years. According to IMS Health, based on its current growth rate, China will become the world's 7th largest pharmaceutical market by 2009 and is expected to become the world's 5th largest pharmaceutical market by 2010 and the largest by 2050.

China's health food market is currently at approximately RMB45-50 billion. It is expected to reach RMB200 billion by year 2010.

Population

According to the result of the census released by the National Bureau of Statistics of China (中華人共和國國家統計局), the total population of Mainland China in 2005 was 1.3 billion, which represents a 3.2% increase from 2000. The total population of Mainland China at 2000 was 1.26 billion. The average increase is 0.63% (8 million) per year during 2000 to 2005.

In addition, the number of people over 60 years old accounted for 11% of the total population in 2006 and is expected to increase to about 15% in 2015.

MESSAGE FROM CHAIRMAN

GDP

According to the report of the National Bureau of Statistics of China (中華人共和國國家統計局), the GDP of China has a high growth rate. The GDP in 2006 is RMB20,940.7 billion, which represents a 10.7% increase from 2005. It is expected that the GDP of China will continue to grow.

WORKING CAPITAL

In view of the good established distribution network of the CJV and the high profit margin of the products of Laolaishou, the Investor is confident that the Group will turn to be profitable in the forthcoming year. Therefore, the Investor undertakes to inject fresh equity capital in the total amount of HKD150 million into the Company upon the resumption of the trading in the shares of the Company.

The sum of HKD150 million will be used for settlement of the indebtedness of the Company, expansion of distribution network, expansion of production facilities and for working capital of the Group. Particularly, HKD60 million will be utilized to develop the "Laolaishou Health Clubs" in the PRC so as to enhance the distribution network and the profit margin of the CJV.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Given that the Company is under provisional liquidation, financial assistance from the Investor and cash inflow from operation are, at present, the major sources of funding for the Group.

It is expected that the indebtedness of the Company will be compromised and discharged in full through the schemes of arrangement to be proposed pursuant to the relevant laws of the Cayman Islands and Hong Kong respectively.

By Order of the Board
Tai Kai Hing
Chairman

Hong Kong, 23 August 2007

MANAGEMENT PROFILE

EXECUTIVE DIRECTOR

Tai Kai Hing, aged 32, graduated from the Chinese University of Hong Kong in 1996 with major in Statistics and minor in Economics, He started his career as a business consultant with Andersen Consulting (currently named Accenture (Hong Kong) Limited) where he participated in numerous major consulting projects for multinational enterprises, namely A.S. Watson Group, Siemens, Colgate-Palmolive and Philip Morris Asia Incorporated and Philip Morris Asia Incorporated. Mr. Tai has also acquired extensive experiences from different senior positions held in Informasia Holdings Limited as well as its subsidiaries.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chung Wai Man, aged 49. Mr. Chung has obtained a Diploma in Business Management in 1992 and Certificate of Bank of China Banking Course(中銀集團銀行課程文憑) in 1995. He started working in Kwangtung Provincial Bank, and moved way up to Deputy Manager in charge of the Tai Po Branch, and later Tai Wai Branch. In 1996 after leaving Kwangtung Provincial Bank, Mr. Chung established "Raymond Chung Company", a finance and business consulting firm for corporations in Hong Kong and PRC. In 2004, he set up a new consulting firm, "Excel Linker Capital (Asia) Limited, which focuses on corporations in the PRC.

Chiu Koon Shou, Victor, aged 37. Mr. Chiu was appointed as an independent non-executive director of the Company on 1 September 2004. Mr. Chiu is a practicing lawyer. Mr. Chiu has at least 13 years of experience in the legal industry.

MANAGEMENT

Lau Ching Kei, aged 38. Mr. Lau holds both a master degree and a bachelor degree in economics from the London School of Economics and Political Science.

Mr. Lau has extensive experience in corporate operations and management. Mr. Lau had worked with several international financial institutions include Schroder Investment Manager (HK) Ltd, Prudential Asia Fund Management Limited, Anglo Chinese Corporate Finance Limited, UFJ Finance Limited and OFS Capital Limited. Prior to joining the wholly owned subsidiary of the Company, Mr. Lau had worked as directors or consultants for companies in various industries include manufacturing, pharmaceutical and retailing in Mainland China and Hong Kong include Jiangsu Sihuan Bioengineering Co., Ltd., Shanghai Besthealth Company Ltd., Lead Billion Ltd., e-Clearing Group Ltd., Jinda Tyre Retreading Ltd. and Citicall Ltd.

Mr. Lau is also a Chartered Financial Analyst

Dr. Dong Hui, aged 45. Dr. Dong holds a master degree in Pharmacy of The Henan University of Traditional Chinese Medicine and a doctor degree in philosophy of China Pharmaceutical University and Toyama Medical and Pharmaceutical University.

Dr. Dong has 18 years experience in research and development, quality control, production management and market development on traditional Chinese medicines and natural product medicines. He has also actively participated in over 10 research and development projects in the PRC and overseas, and has been granted 4 national awards. Dr. Dong also published over 40 papers on the international journals. He applied and registered 3 patent rights from his research and development in the PRC. Some of the rewards are listed below:

1. China Pharmaceutical University and Japan Toyama Medical and Pharmaceutical University Joint Visiting Fellowship (1993).

2. National Science and Technology Broad Foundation Fellowship Awards (Singapore, 1999).

3. The First Class Prize of the Advancement of Science and Technology of National Medicinal Administration, PRC (1996).

4. The Second Class Prize of the Advancement of Science and Technology of National Medicinal Administration, PRC (1996).

5. The Important Science and Technology of National 85 Key Projects, PRC (1996).

6. The Third Class Prize of the National Administration of Science and Technology, PRC (1997).

He had worked as a research officer of the Institute of Traditional Chinese Medicines, the Chinese University of Hong Kong, vice president and research and development director of China Nutriceuticals Products (HK) Ltd., and executive director of Hing Hung Co. Ltd.

DONG, Qi, aged 33, He graduated from 山東中醫藥大學 (Shandong University of Traditional Chinese Medicine), and holds the qualification of a pharmacist. During 1999 to 2002, he studied computer science at 山東大學(Shandong University). Currently, he is studying the Master of Business Administration (MBA) at山東大學管理學院 (Management School of Shandong University). Mr. Dong has approximately 10 years of working experience in the pharmaceutical industry. He had worked in senior management position of濟南宏濟堂制藥有限公司(Jinan Hongjitang Pharmaceutical Company Limited) and山東潤華藥業有限公司(Shandong Runhua Pharmaceutical Company Limited). Currently, he is working with濟南奧斯生物技術有限公司(Jinan Aosi Biotech Company Limited) in charge of its research and development department.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the financial statements.

WINDING-UP PETITION AND RESTRUCTURING OF THE COMPANY

On 15 September 2004, Standard Chartered Bank (Hong Kong) Limited, acting as a Bank Creditor, presented a winding-up petition in relation to the Company. Upon the application of Standard Chartered Bank (Hong Kong) Limited, Messrs. Lai Kar Yan Derek and Darach E. Haughey, both of Deloitte Touche Tohmatsu, were appointed by The Honourable Madam Justice Kwan as joint and several provisional liquidators of the Company on 22 September 2004.

An investor expressed interest in restructuring the Company and has submitted a restructuring proposal for the Company, details of which are set out in the note 2 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2007 are set out in the consolidated income statement on page 19.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

FINANCIAL SUMMARY

The following is a summary of the results and of the assets and liabilities of the Group:

	For the year ended 30 June				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)	(unaudited)	
RESULTS					
Turnover	**83,111**	32,026	29,079	15,492	992,961
(Loss)/profit before tax	**(64,427)**	(51,730)	(40,945)	(1,470,856)	235,509
Income tax expense	**(10)**	–	–	–	(52,682)
(Loss)/profit for the year	**(64,437)**	(51,730)	(40,945)	(1,470,856)	182,827
Attributable to:					
Equity holders of the Company	**(64,052)**	(51,452)	(40,714)	(1,466,106)	175,040
Minority interests	**(385)**	(278)	(231)	(4,750)	7,787
	(64,437)	(51,730)	(40,945)	(1,470,856)	182,827

	As at 30 June				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)	(unaudited)	
ASSETS AND LIABILITIES					
Non-current assets	**34,231**	34,604	34,840	34,035	337,396
Current assets	**17,459**	19,720	18,043	162,683	958,033
Current liabilities	**(861,340)**	(799,564)	(746,990)	(850,547)	(142,794)
Non-current liabilities	**-**	-	-	-	(265,200)
Net (liabilities)/assets	**(809,650)**	(745,240)	(694,107)	(653,829)	887,435
Attributable to:					
Equity holders of the Company	**(809,784)**	(745,553)	(694,639)	(654,525)	865,250
Minority interests	**134**	313	532	696	22,185
Total equity	**(809,650)**	(745,240)	(694,107)	(653,829)	887,435

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive director

Tai Kai Hing (appointed on 23 March 2007)

Independent non-executive directors

Chiu Koon Shou, Victor
Chung Wai Man (appointed on 23 March 2007)
Lo Wah Wai, Lowell (resigned on 4 December 2006)

In accordance with the provisions of the Company's Articles of Association, Mr. Chung Wai Man will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

The Company has received an annual confirmation from each Independent Non-executive Director with each confirming his independence pursuant to rule 3.13 of the Listing Rules and the Company still considers such Directors are independent of the Company.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

At 30 June 2007, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Name of shareholder	Long/Short position	Capacity	Number of issued ordinary shares held	Note	Percentage of the issued share capital of the Company
Cai Chong Zhen	Long	Beneficiary of a trust	883,400,000	(1)	40.60%
		Beneficial owner	34,000,000		1.56%
Zhang Xiuqiong	Long	Interest of spouse	917,400,000	(2)	42.16%
Chen Ching Ken	Long	Founder of a discretionary trust	883,400,000	(1)	40.60%
Chen Lin Mei Mei	Long	Interest of spouse	883,400,000	(3)	40.60%
Great Wall Investment Group Limited	Long	Trustee	883,400,000	(1)	40.60%
Trident Corporate Services (B.V.I.) Limited (formerly known as Ansbacher (BVI) Limited)	Long	Trustee	883,400,000	(1)	40.60%
Celestial Securities Limited	Long	Other	186,200,000		8.56%

Notes:

1. These shares were held by Great Wall Investment Group Limited as the trustee of The Great Wall Unit Trust, a unit trust of which all of the units in issue are owned by Trident Corporate Services (B.V.I.) Limited in its capacity as the trustee of The C&C Trust, a discretionary family trust of which the objects include Mr. Cai Chong Zhen and his spouse and the family member of Mr. Chen Ching Ken.

   Accordingly, Mr. Chen Ching Ken, as founder of The C&C Trust, and Mr. Cai Chong Zhen, as one of the discretionary objects of The C&C Trust, were deemed to be interested in the shares owned by Great Wall Investment Group Limited in its capacity as the trustee of The Great Wall Unit Trust under Part XV of the SFO.

2. Ms. Zhang Xiuqiong was deemed to be interested in the 917,400,000 shares of the Company through interests of her spouse, Mr. Cai Chong Zhen.

3. Ms. Chen Lin Mei Mei was deemed to be interested in the 883,400,000 shares of the Company through interests of her spouse, Mr. Chen Ching Ken.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2007.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

Since the Company is under provisional liquidation, the Company has not complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Once the Stock Exchange of Hong Kong Limited approves the resumption of the trading in shares of the Company, appropriate personnel will be appointed to the board and arrangements will be made to comply with the Code.

AUDIT COMMITTEE

The Company has not complied with Rule 3.21 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. Throughout the year ended 30 June 2007, no audit committee has been established. Once the Stock Exchange of Hong Kong Limited approves the resumption of the trading in shares of the Company, appropriate personnel will be appointed as members of audit committee.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, the trading in shares of the Company remains in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

EVENT AFTER THE BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in note 32 to the financial statements.

AUDITORS

On 18 July 2007, CCIF CPA Limited who acted as auditors of the Company for the past years resigned and ANDA Certified Public Accountants were appointed as auditors of the Company on 15 August 2007. A resolution will be submitted to the annual general meeting to re-appoint the auditors, ANDA Certified Public Accountants.

On behalf of the Board

Tai Kai Hing
CHAIRMAN
23 August 2007

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
Far East Pharmaceutical Technology Company Limited (Provisional Liquidators Appointed)
遠東生物制藥科技有限公司 (已委任臨時清盤人)
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Far East Pharmaceutical Technology Company Limited (the "Company") set out on pages 19 to 51, which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

The Directors are unable to provide all the relevant information and evidence for the purpose of our audit. In consequence we were unable to carry out auditing procedures necessary to obtain adequate assurance in relation to the following limitations in the scope of our work.

1. Scope Limitation – 上海德勝科技集團(安慶)製藥有限公司

The Directors were unable to provide to us sufficient information of 上海德勝科技集團(安慶)製藥有限公司 for us to carry out all necessary audit procedures. Hence, we were unable to satisfy ourselves as to whether the following items regarding 上海德勝科技集團(安慶)製藥有限公司are fairly stated in these financial statements.

1.1 Inventories

We were appointed as auditors of the Company subsequent to the balance sheet date of 30 June 2007. In consequence, we were unable to attend the Group's physical counts of inventories possessed by the subsidiary 上海德勝科技集團(安慶)製藥有限公司as at that date. No sufficient stock records have been provided to us to verify the quantity and the carrying amount of inventories of approximately HK$4,629,000 as at 30 June 2007. There are no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the existence, quantities, conditions and valuation of the inventories as at 30 June 2007.

1.2 Trade Receivables

No direct confirmation and other sufficient evidence have been received by us up to the date of the auditor's report in respect of the trade receivables of the subsidiary 上海德勝科技集團(安慶)製藥有限公司totaling approximately HKD3,292,000 as at 30 June 2007.

1.3 Other Receivables

No sufficient evidence has been provided to satisfy ourselves as to the existence and recoverability of the deferred expenses of the subsidiary, 上海德勝科技集團(安慶)製藥有限公司 totaling approximately HK$3,300,000 included in the prepayments, deposits and other receivables as at 30 June 2007.

1.4 Bank Balances

No direct confirmation and other sufficient evidence have been received by us up to the date of the auditor's report in respect of the bank balances of the subsidiary, 上海德勝科技集團(安慶)製藥有限公司totaling approximately HK$941,000 as at 30 June 2007.

1.5 Unsecured Bank Loans

No direct confirmation and other sufficient evidence have been received by us up to the date of the auditor's report in respect of the unsecured bank loans of the subsidiary, 上海德勝科技集團(安慶)製藥有限公司totaling approximately HK$25,370,000 as at 30 June 2007.

1.6 *Trade Payables*

No direct confirmation and other sufficient evidence have been received by us up to the date of the auditor's report in respect of the trade payables of the subsidiary, 上海德勝科技集團(安慶)製藥有限公司 totaling approximately HK$15,933,000 as at 30 June 2007.

2. Scope Limitation – All Group Companies

The Directors are unable to provide all the relevant information and evidence for the purpose of our audit. Hence, we were unable to carry out auditing procedures necessary to ascertain the followings:

2.1 *Opening Balances and Comparative Figures*

The consolidated financial statements of the Company for the year ended 30 June 2006 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were unaudited. Hence, we were unable to ascertain the existence, accuracy, presentation and completeness of opening balances and the comparative figures shown in the current year's consolidated financial statements.

2.2 *Accruals and Other Payables*

No direct confirmation and other sufficient evidence have been received by us up to the date of the auditor's report in respect of the accruals and other payables totaling approximately HK$230,687,000 as at 30 June 2007.

2.3 *Employee Benefits*

No sufficient evidence has been provided to satisfy ourselves as to the completeness of the employee benefits and retirement benefits scheme for the year ended 30 June 2007.

2.4 *Related Party Transactions and Balances*

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of related party transactions for the year ended 30 June 2007 and of the related party balances as at 30 June 2007 as required by Hong Kong Accounting Standard 24 "Related Party Disclosures".

2.5 *Commitments and Contingent Liabilities*

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of commitments and contingent liabilities of the Group as at 30 June 2007 as disclosed in notes 30 to 31 to the financial statements.

2.6 *Pledge of Assets*

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of possible pledge of assets as at 30 June 2007.

2.7 *Share-based Payments*

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the equity-settled share option scheme as at 30 June 2007 and disclosed in note 28 to the financial statements, as required by Hong Kong Financial Reporting Standard 2.

Any adjustments to the figures as described from points 1 to 2 above might have a significant consequential effect on the Group's results for the two years ended 30 June 2006 and 2007 and the net liabilities of the Group as at 30 June 2006 and 2007 and the related disclosures thereof in the financial statements.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that a proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "Resumption Proposal") was entered into on 29 March 2006, between Best Champion Holdings Limited (the "Investor") and the Provisional Liquidators. The Resumption Proposal involves capital restructuring, debt restructuring, subscription of shares and group restructuring, resulting in a reduction of the Company's indebtedness.

The Resumption Proposal with the Investor is, however, dependent upon the scheme of arrangement for the restructuring of the Company's indebtedness being accepted by the majority of each class of the Company's creditors and the re-listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Resumption Proposal is also conditional upon the relevant approvals being obtained from the shareholders, the High Court of Hong Kong, the Supreme Court of the Cayman Islands and the Hong Kong regulatory authorities including the Stock Exchange and the Securities and Futures Commission.

The financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed and that, following the financial restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The financial statements do not include any adjustments that would result from a failure to complete the financial restructuring or to obtain other funding. However, in view of the extent of the material uncertainty relating to the completion of the financial restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 30 June 2007 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA Certified Public Accountants
Hong Kong

23 August 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	Notes	2007	2006
		HK$'000	*HK$'000*
			(unaudited)
Turnover	*7*	**83,111**	32,026
Cost of sales		**(78,817)**	(26,211)
Gross profit		**4,294**	5,815
Other income	*8*	**106**	1
Selling expenses		**(3,674)**	(4,257)
Administrative expenses		**(4,620)**	(3,350)
Other expenses		**(76)**	(10)
Finance cost	*10*	**(60,457)**	(49,929)
Loss before tax		**(64,427)**	(51,730)
Income tax expense	*11*	**(10)**	–
Loss for the year	*12*	**(64,437)**	(51,730)
Attributable to:			
Equity holders of the Company	*15*	**(64,052)**	(51,452)
Minority interests		**(385)**	(278)
		(64,437)	(51,730)
Dividends		**–**	–
Loss per share	*16*		
Basic (HK cents per share)		**(2.9)**	(2.4)
Diluted (HK cents per share)		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000 (unaudited)
Non-current assets			
Property, plant and equipment	17	**26,127**	26,320
Prepaid lease payments	18	**8,104**	8,284
		34,231	34,604
Current assets			
Inventories	19	**4,629**	5,580
Prepayments, deposits and other receivables		**8,351**	7,092
Trade receivables	20	**3,292**	4,483
Prepaid lease payments	18	**180**	180
Bank and cash balances	21	**1,007**	2,385
		17,459	19,720
Current liabilities			
Bank loans – unsecured	22	**612,871**	555,500
Trade payables	23	**15,933**	15,371
Accruals and other payables		**230,687**	228,598
Amounts due to directors of subsidiaries	24	**1,056**	95
Amount due to a minority shareholder	25	**793**	–
		861,340	799,564
Net current liabilities		**(843,881)**	(779,844)
NET LIABILITIES		**(809,650)**	(745,240)
Capital and reserves			
Share capital	26	**54,394**	54,394
Reserves	27	**(864,178)**	(799,947)
Equity attributable to equity holders of the Company		**(809,784)**	(745,553)
Minority interests		**134**	313
TOTAL EQUITY		**(809,650)**	(745,240)

Approved by:

Tai Kai Hing	**Chung Wai Man**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium account	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Foreign currency translation reserve	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005 (unaudited)	54,394	385,249	998	11,022	5,064	–	(1,151,366)	(694,639)	532	(694,107)
Translation difference	–	–	–	–	–	(8)	–	(8)	(1)	(9)
Revaluation surplus on buildings	–	–	–	–	546	–	–	546	60	606
Net income recognised directly in equity	–	–	–	–	546	(8)	–	538	59	597
Loss for the year	–	–	–	–	–	–	(51,452)	(51,452)	(278)	(51,730)
Total recognised income and expense for the year	–	–	–	–	546	(8)	(51,452)	(50,914)	(219)	(51,133)
At 30 June 2006 (unaudited)	54,394	385,249	998	11,022	5,610	(8)	(1,202,818)	(745,553)	313	(745,240)
At 1 July 2006	54,394	385,249	998	11,022	5,610	(8)	(1,202,818)	(745,553)	313	(745,240)
Translation difference	–	–	–	–	–	(179)	–	(179)	–	(179)
Net expense recognised directly in equity	–	–	–	–	–	(179)	–	(179)	–	(179)
Loss for the year	–	–	–	–	–	–	(64,052)	(64,052)	(385)	(64,437)
Total recognised income and expense for the year	–	–	–	–	–	(179)	(64,052)	(64,231)	(385)	(64,616)
Capital contribution by minority	–	–	–	–	–	–	–	–	206	206
At 30 June 2007	54,394	385,249	998	11,022	5,610	(187)	(1,266,870)	(809,784)	134	(809,650)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2007

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Cash flows from operating activities		
Loss before tax	**(64,427)**	(51,730)
Adjustments for:		
Depreciation of property, plant and equipment	**2,957**	2,502
Amortisation of prepaid lease payments	**180**	180
Interest income	**(19)**	(1)
Finance cost	**60,457**	49,929
Operating (loss)/profit before working capital changes	**(852)**	880
Change in inventories	**951**	(1,657)
Change in prepayments, deposits and other receivables	**(1,259)**	531
Change in trade receivables	**1,191**	(1,020)
Change in trade payables	**562**	4,295
Change in accruals and other payables	**2,089**	133
Change in amounts due to directors of subsidiaries	**961**	95
Change in amount due to a minority shareholder	**793**	–
Cash generated from operations	**4,436**	3,257
Finance cost paid	**(934)**	(1,600)
Tax paid	**(10)**	–
Net cash generated from operating activities	**3,492**	1,657
Cash flows from investing activities		
Interest received	**19**	1
Purchase of property, plant and equipment	**(1,231)**	(992)
Net cash used in investing activities	**(1,212)**	(991)
Cash flows from financing activities		
Repayments of borrowings	**(2,152)**	(44,948)
New bank loans raised	**–**	43,862
Capital contribution by minority	**206**	–
Net cash used in financing activities	**(1,946)**	(1,086)
Net increase/(decrease) in cash and cash equivalents	**334**	(420)
Effect of foreign exchange rate changes	**(1,712)**	(54)
Cash and cash equivalents at beginning of year	**2,385**	2,859
Cash and cash equivalents at end of year	**1,007**	2,385
Analysis of cash and cash equivalents		
Bank and cash balances	**1,007**	2,385
	1,007	2,385

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended for trading since 17 June 2004.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 33 to the financial statements.

2. BASIS OF PREPARATION

Going concern

The Group incurred a loss attributable to equity holders of the Company of approximately HK$64,052,000 for the year ended 30 June 2007 (2006: approximately HK$51,452,000) and as at 30 June 2007 the Group had net current liabilities of approximately HK$843,881,000 (2006: approximately HK$779,844,000) and net liabilities of approximately HK$809,650,000 (2006: approximately HK$745,240,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group has been experiencing financial difficulties since about 2004. On 15 September 2004, Standard Chartered Bank (Hong Kong) Limited ("SCBHK") petitioned for the winding-up of the Company as the Company failed to repay a syndicated bank loan. Upon the application of SCBHK, on 22 September 2004 Messrs Lai Kar Yan Derek and Darach E. Haughey, both of Deloitte Touche Tohmatsu, were appointed as joint and several provisional liquidators (the "Provisional Liquidators") of the Company by the High Court of the Hong Kong Special Administrative Region so as to preserve the assets of the Company and to consider and review all restructuring proposals to maximize the recovery of the creditors and shareholders of the Company.

The Company had been placed into the third stage of the delisting procedures on 17 October 2005. Best Champion Holdings Limited (the "Investor") subsequently decided to pursue a restructuring of the Company.

After various discussions involving representatives of the Provisional Liquidators, Best Champion Holdings Limited and their respective advisors, the terms of a restructuring proposal were formulated. The restructuring proposal involves, inter alia, (i) capital restructuring; (ii) debt restructuring; (iii) subscription; and (iv) group reorganization.

On 29 March 2006, a proposal for the resumption of trading in the Company's shares was submitted on behalf of the Company to the Stock Exchange by Asian Capital (Corporate Finance) Limited which had been appointed as the financial advisor to the Company.

The proposal for resumption of the trading in shares of the Company is yet subject to the approval of the Stock Exchange Listing Appeals Committee.

The financial statements have been prepared on a going concern basis on the basis that the proposed restructuring of the Company will be successfully completed, and that, following the financial restructuring, the Group will continue to meet in full its financial obligations as they fall due for the foreseeable future.

Loss of books and records of a subsidiary

The Directors have used their best endeavors to relocate all the financial and business records of a subsidiary, 上海德勝科技集團(安慶)制藥有限公司 ("Anqing"), as all of its books and records for the period from 1 July to 31 December 2003 have been lost and most of the former accounting personnel of Anqing have left. The Directors were unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the subsidiary as at 30 June 2007.

The financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence described above, the Directors were unable to ascertain that the accuracy, completeness and existence of opening balances and corresponding figures of the subsidiary for the period from 1 July to 31 December 2003 have been properly reflected in the books and records and in the financial statements.

Insufficient information provided by the Directors

The Directors were unable to obtain all the relevant information regarding the books and records of the Group, and therefore the Directors were unable to satisfy themselves as to the existence, completeness and accuracy of the following:

i) *Related party transactions*

The Directors were unable to ascertain the existence and completeness of related party transactions for the year ended 30 June 2007 and of the related party balances as at 30 June 2007 as required by HKAS24 "Related Party Disclosures".

ii) *Commitments and contingent liabilities*

The Directors were unable to ascertain the completeness of commitments entered in the name of the Company and its subsidiaries for the year ended 30 June 2007 and the existence of contingent liabilities that past management is not aware of for the year ended 30 June 2007. There are no alternative procedures that the Directors could adopt to satisfy themselves on the existence and completeness of these items and amounts as disclosed in notes 30 to 31 to the financial statements.

iii) Employee benefits
The Directors were unable to ascertain the existence and completeness of employee benefits and retirement benefits scheme as required by HKAS 19 "Employee benefits".

iv) Pledge of assets
The Directors were unable to ascertain the existence of pledge of assets as required by the Hong Kong Companies Ordinance.

v) Share-based payments
The Directors were unable to ascertain the existence and completeness of the equity-settled share option scheme as at 30 June 2007 as disclosed in note 28 to the financial statements as required by HKFRS 2.

vi) Credit risk and aging of trade receivables and trade payables
The Directors were unable to obtain and disclose sufficient information of the Group's credit risk and aging of trade receivables and trade payables as required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

Financial results of 山東特利爾醫藥有限公司

山東特利爾醫藥有限公司 was incorporated on 5 April 2007 in the PRC under a Co-operative Joint Venture ("CJV") agreement in which the Company indirectly holds 80% of the ownership interest. The subsidiary is engaged in the trading of pharmaceutical products in the PRC.

In accordance with an agency agreement, the sales and purchase transactions of the CJV were carried out on the CJV's behalf by 山東特利爾營銷策劃有限公司, who holds 20% of the ownership interest in the CJV. The financial statements have been prepared on the basis that those sales and purchase for the period from 5 April to 30 June 2007 have been included in the Group's current year results. In view of the various terms stipulated in the agency agreement, the Directors regard such accounting treatments are appropriate.

In the opinion of the Directors, the financial statements for the year ended 30 June 2007 prepared on the going concern basis present fairly the results, the state of affairs and cash flows of the Group.

Any adjustment arising from the matters described above might have a significant consequential effect on the Group's results for the year and the net liabilities of the Group as at 30 June 2007 and the related disclosures thereof in the financial statements.

Also, as a result of the matters described above, the corresponding figures shown in the financial statements may not be comparable with the figures for the current year.

Having reviewed and considered the operations and the affairs of the Group and the Company, the magnitude of the claims against the Company and the third stage of delisting procedures, the Directors concluded that the proposed restructuring represents the best means available for the Company to be returned to solvency and to continue with the development and enhancement of its business. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

Foreign currency translation

a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

b) *Transactions and balances in each entity's financial statements*
Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

c) *Translation on consolidation*
The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment
Buildings comprise mainly factories and offices. Buildings are carried at fair values less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Revaluation increases of buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the property revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against property revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained profits.

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

Buildings	Over the lease terms or 10 years, whichever is shorter
Plant and machinery	5 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending for installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A party is related to the Group if:

a) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

b) the party is an associate;

c) the party is a joint venture;

d) the party is a member of the key management personnel of the Company or its parent;

e) the party is a close member of the family of any individual referred to in (a) or (d);

f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and 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 determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, goodwill, other intangible assets, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

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. Inter-segment pricing is based on terms mutually agreed between the segments.

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

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

a) Going concern basis

These financial statements have been prepared on a going concern basis, the validity of which depends upon being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the financial statements.

b) **Financial results of 山東特利爾醫藥有限公司**

In accordance with an agency agreement, the sales and purchase transactions of 山東特利爾醫藥有限公司 ("the CJV") were carried out on the CJV's behalf by 山東特利爾營銷策劃有限公司, who holds 20% of the ownership interest in the CJV. The financial statements have been prepared on the basis that those sales and purchase for the period from 5 April to 30 June 2007 have been included in the Group's current year results. In view of the various terms stipulated in the agency agreement, the Directors regard such accounting treatments are appropriate.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) **Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

b) **Allowance for bad and doubtful debts**

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customers collection issues that it has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimate credit losses.

c) **Allowance for inventories**

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realizable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowances for obsolete items.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 30 June 2007 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank borrowings. These borrowings bear interests at variable rates varied with the then prevailing market condition.

e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

7. TURNOVER

The Group's turnover which represents sales of pharmaceutical products to customers is as follows:

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Sales of pharmaceutical products		
– Manufacturing (Anqing operation)	**30,089**	32,026
– Trading (CJV operation)	**53,022**	–
	83,111	32,026

8. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Interest income	**19**	1
Other income	**87**	–
	106	1

9. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is principally engaged in the manufacturing and distribution of pharmaceutical products. An analysis of the Group's financial performance and position by business segments, namely 'Manufacturing and distribution' and 'Corporate and others' is as follows:

	Manufacturing and distribution		Corporate and others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(unaudited)		(unaudited)		(unaudited)
Years ended 30 June 2007 and 2006						
Turnover	**83,111**	32,026	**–**	–	**83,111**	32,026
Segment results	**(2,978)**	(1,173)	**(1,022)**	(619)	**(4,000)**	(1,792)
Other income					**106**	1
Other expenses					**(76)**	(10)
Loss from operations					**(3,970)**	(1,801)
Finance cost					**(60,457)**	(49,929)
Loss before tax					**(64,427)**	(51,730)
At 30 June 2007 and 2006						
Segment assets	**51,600**	47,079	**90**	7,245	**51,690**	54,324
Segment liabilities	**248,469**	50,511	**–**	193,553	**248,469**	244,064
Unallocated liabilities					**612,871**	555,500
Total liabilities					**861,340**	799,564
Other segment information:						
Capital expenditure	**1,231**	992	**–**	–	**1,231**	992
Depreciation	**2,957**	2,502	**–**	–	**2,957**	2,502
Amortisation	**180**	180	**–**	–	**180**	180

Secondary reporting format – geographical segments

Over 90% of the Group's revenue and assets are derived from customers and operations based in the PRC and accordingly, no further analysis of the Group's geographical segments is disclosed.

10. FINANCE COST

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Interest on unsecured bank loans and syndicated borrowings	**60,457**	49,929

11. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Current tax – Overseas		
Provision for the year	**10**	–
Deferred tax	**–**	–
	10	–

No provision for Hong Kong Profits Tax has been made for the year ended 30 June 2007 (2006: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year.

Tax charge 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, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of loss before tax multipled by the Hong Kong Profits Tax rate is as follows:

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Loss before tax	**(64,427)**	(51,730)
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	**(11,275)**	(9,053)
Tax effect of expenses that are not deductible	**11,285**	8,758
Effect of difference in tax rates of subsidiaries	**–**	28
Tax effect of temporary differences not recognised	**–**	267
	10	–

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Depreciation	**2,957**	2,502
Directors' emoluments (separately show totals of emoluments, pensions and compensation for loss of office)		
– As directors	**257**	360
– For management	**–**	–
	257	360
Operating lease charges of land and buildings	**231**	180
Auditors' remuneration	**450**	550
Cost of inventories sold	**78,817**	26,211
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**2,440**	1,510
Equity-settled share-based payments	**–**	–
Retirement benefits scheme contributions	**–**	–
	2,440	1,510

13. DIRECTORS' EMOLUMENTS

The emoluments of each director were as follows:

	Fee	Salaries and allowances	Discretionary bonus	Share–based payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of directors						
Lo Wah Wai, Lowell *(Note (a))*	**77**	–	–	–	–	**77**
Chiu Koon Shou, Victor	**180**	–	–	–	–	**180**
Tai Kai Hing *(Note (b))*	–	–	–	–	–	–
Chung Wai Man *(Note (b))*	–	–	–	–	–	–
Total for 2007	**257**	–	–	–	–	**257**
Lo Wah Wai, Lowell *(Note (a))*	180	–	–	–	–	180
Chiu Koon Shou, Victor	180	–	–	–	–	180
Total for 2006 (unaudited)	360	–	–	–	–	360

Note: (a) Resigned on 4 December 2006

(b) Appointed on 23 March 2007

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

14. RETIREMENT BENEFIT SCHEMES

The employees of the Group's subsidiary established in the PRC are members of a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

15. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss for the year attributable to equity holders of the Company included a loss of approximately HK$60,422,000 (2006: loss of approximately HK$48,938,000) which has been dealt with in the financial statements of the Company.

16. LOSS PER SHARE

Basic loss per share

The calculation of basic loss (2006: loss) per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK$64,052,000 (2006: HK$51,452,000) and the weighted average number of ordinary shares of 2,175,742,400 (2006: 2,175,742,400) in issue during the year.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 30 June 2007.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation					
At 1 July 2005	15,508	15,697	463	1,970	33,638
Additions	–	311	–	681	992
Surplus on revaluation	606	–	–	–	606
Exchange differences	457	457	13	57	984
At 30 June 2006 and 1 July 2006	16,571	16,465	476	2,708	36,220
Additions	839	158	–	234	1,231
Exchange differences	995	988	29	163	2,175
At 30 June 2007	18,405	17,611	505	3,105	39,626
Accumulated depreciation					
At 1 July 2005	1,682	5,127	214	–	7,023
Charge for the year	674	1,713	115	–	2,502
Exchange differences	107	257	11	–	375
At 30 June 2006 and 1 July 2006	2,463	7,097	340	–	9,900
Charge for the year	896	1,935	126	–	2,957
Exchange differences	148	474	20	–	642
At 30 June 2007	3,507	9,506	486	–	13,499
Carrying amounts					
At 30 June 2007	14,898	8,105	19	3,105	26,127
At 30 June 2006 (unaudited)	14,108	9,368	136	2,708	26,320

The analysis of the cost or valuation at 30 June 2007 of the above assets is as follows:

	Buildings	Plant and machinery	Motor vehicles	Construction in progress	Total
At cost	–	17,611	505	3,105	21,221
At valuation 2007	18,405	–	–	–	18,405
	18,405	17,611	505	3,105	39,626

The analysis of the cost or valuation at 30 June 2006 (unaudited) of the above assets is as follows:

	Buildings	Plant and machinery	Motor vehicles	Construction in progress	Total
At cost	–	16,465	476	2,708	19,649
At valuation 2006	16,571	–	–	–	16,571
	16,571	16,465	476	2,708	36,220

The carrying amount of the Group's buildings would have been HK$8,590,000 (2006: HK$7,800,000) had they been stated at cost less accumulated depreciation and impairment losses.

18. PREPAID LEASE PAYMENTS

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Leasehold land in the PRC		
Medium-term lease	**8,284**	8,464
Analysed for reporting purpose as:		
Non-current asset	**8,104**	8,284
Current asset	**180**	180
	8,284	8,464

19. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Raw materials	**356**	1,379
Work in progress	**–**	4
Finished goods	**4,273**	4,197
	4,629	5,580

20. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Trade receivables	**12,944**	14,135
Less: Allowance for bad and doubtful debts	**(9,652)**	(9,652)
	3,292	4,483

As at 30 June 2007, an allowance was made for estimated irrecoverable trade receivables of approximately HK$9,652,000 (2006: approximately HK$9,652,000).

21. BANK AND CASH BALANCES

As at 30 June 2007, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK$955,000 (2006: HK$2,231,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. BANK LOANS – UNSECURED

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Bank loans – unsecured	**612,871**	555,500

The borrowings are repayable as follows:

On demand or within one year	**612,871**	555,500
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(612,871)**	(555,500)
Amount due for settlement after 12 months	**–**	–

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	USD	**RMB**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
2007			
Bank loans – unsecured	**587,501**	**25,370**	**612,871**
2006 (unaudited)			
Bank loans – unsecured	527,978	27,522	555,500

The average interest rates at 30 June were as follows:

	2007	2006 (unaudited)
Bank loans – unsecured	**9.7%**	9.0%

Bank loans of approximately HK$25,370,000 (2006: approximately HK$27,522,000) are arranged at fixed interest rates and exposed the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Due to the liquidity issue since 2004, the Group had defaulted in respect of the repayment of a syndication loan totaling approximately HK$587,501,000 as at 30 June 2007 and such amounts have become repayable on demand. On 15 September 2004, Standard Chartered Bank (Hong Kong) Limited took legal action to petition for the winding-up of the Company.

23. TRADE PAYABLES

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Trade payables	**15,933**	15,371

24. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

The advances are unsecured, non-interest bearing and have no fixed repayment terms.

25. AMOUNT DUE TO A MINORITY SHAREHOLDER

The advance is unsecured, non-interest bearing and has no fixed repayment terms.

26. SHARE CAPITAL

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Authorized:		
4,000,000,000 ordinary shares of HK$0.025 each	**100,000**	100,000
Issued and fully paid:		
2,175,742,400 ordinary shares of HK$0.025 each	**54,394**	54,394

27. RESERVES

a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

b) Company

	Note	Share premium account HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2005 (unaudited)		385,249	104,915	(995,860)	(505,696)
Loss for the year	15	–	–	(48,938)	(48,938)
At 30 June 2006 (unaudited)		385,249	104,915	(1,044,798)	(554,634)
At 1 July 2006		385,249	104,915	(1,044,798)	(554,634)
Loss for the year	15	–	–	(60,422)	(60,422)
At 30 June 2007		385,249	104,915	(1,105,220)	(615,056)

c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory surplus reserve

Subsidiaries of the Company established in the PRC and foreign investment enterprises ("FIE") are required to transfer 10% of their profit after tax (after offsetting prior years losses) 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.

(iii) Capital reserve

Capital reserve represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired, pursuant to the reorganisation scheme 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 2002 (the "Reorganisation"), over the nominal value of the share capital of the Company issued in exchange therefore.

(iv) Property revaluation reserve

The property revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 4 to the financial statements.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

28. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives or rewards to eligible participants who contribute to the success of the Group's operations and to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any invested entity in which the Group holds any equity interest. Eligible participants of the Scheme include the directors of the Company, including non-executive directors, other employees of the Group and other categories as set out in the Scheme.

Details of the movements of the outstanding share options granted under the Scheme during the year are summarised as follows:

Name of category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$*	Balance as at 1/7/2005 and 30/6/2006	Granted/ Exercised/ Lapsed during the year	Balance as at 30/6/2007
Ex-Directors:						
Cai Chong Zhen	19/1/2001	19/1/2001 to 18/1/2011	0.163	12,000,000	–	12,000,000
	27/3/2001	27/3/2001 to 26/3/2011	0.192	22,000,000	–	22,000,000
Cai Chong Yi	19/1/2001	19/1/2001 to 18/1/2011	0.163	4,000,000	–	4,000,000
	27/3/2001	27/3/2001 to 26/3/2011	0.192	30,000,000	–	30,000,000
				68,000,000		68,000,000

29. MAJOR NON-CASH TRANSACTION

During the year ended 30 June 2007, the bank borrowings were increased by approximately HK$59,523,000 in respect of overdue bank interest.

30. CONTINGENT LIABILITIES

A full search for contingent liabilities of the Group has not been conducted. However, lawsuits or winding-up petitions, if any, against the Group will be subject to a formal adjudication process, dealt with and compromised under the restructuring scheme.

Save as disclosed above, the Directors were not aware of any significant contingent liabilities of the Group as at the balance sheet date.

31. LEASE COMMITMENTS

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2007	2006
	HK$'000	*HK$'000*
		(unaudited)
Within one year	**273**	–
In the second to fifth years inclusive	**262**	–
After five years	**–**	–
	535	–

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

32. EVENTS AFTER THE BALANCE SHEET DATE

Winding Up Petition

On 11 June 2007, the Honourable Madam Justice Kwan ordered that the petition for the winding up of Far East be further adjourned to 2 October 2007.

Restructuring and Delisting

On 6 February 2007 the financial advisers of the Company requested the Listing Appeals Committee to review the decision of the Listing (Review) Committee to uphold the decision of the Listing Committee that the Company had not submitted a valid resumption proposed and that the listing of the Company's shares on the Stock Exchange of Hong Kong Limited would be cancelled in accordance with Practice Note 17 to the Listing Rules (the "Application").

On 29 May 2007, the Stock Exchange of Hong Kong Limited informed that the Listing Appeals Committee would meet on 28 August 2007 to consider the above application.

Co-operation with Jinan Laolaishou Biotech Company Limited (濟南老來壽生物科技有限公司) ("Laolaishou")

On 20 August 2007, the co-operative joint venture ("CJV") of the Company entered into an exclusive distribution agreement and a trademark licence agreement with Laolaishou. Under the agreements, upon the successful resumption of trading in shares of the Company, the CJV will become the sole agent having the exclusivity right for distribution of the products of Laolaishou. In addition, the CJV will become the sole licensee for operating "Laolaishou Health Club" in the PRC.

33. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Name	Place of incorporation/ registration and operation	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Far East Global Group Limited	British Virgin Islands	1,001 ordinary shares of US$1 each	100%	–	Investment holding
First Sight Technology Group Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Boomtown Ventures Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
上海德勝科技集團(安慶)製藥有限公司	People's Republic of China	Registered capital of RMB10M	–	90%	Manufacturing and distribution of pharmaceutical products
First Jumbo Trading Limited	British Virgin Islands	1 ordinary share of US$1 each	–	100%	Investment holding
Clear Rich International Limited	British Virgin Islands	1 ordinary share of US$1 each	–	100%	Investment holding
山東特利爾醫藥有限公司	People's Republic of China	Registered capital of RMB2.1M	–	80%	Distribution of pharmaceutical products

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 August 2007.

CORPORATE INFORMATION

BOARD OF DIRECTORS
Chairman & Executive Director
Tai Kai Hing

Independent Non-Executive Directors
Chung Wai Man
Chiu Koon Shou, Victor

AUDITORS
ANDA Certified Public Accountants
Unit D, 21st Floor, Max Share Centre
373 King's Road, North Point
Hong Kong

PROVISIONAL LIQUIDATORS
Lai Kar Yan Derek and Darach E. Haughey
35th Floor, One Pacific Place
88 Queensway, Hong Kong

REGISTERED OFFICE
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

REGISTERED PLACE OF BUSINESS IN HONG KONG
35th Floor, One Pacific Place
88 Queensway, Hong Kong