Hua Han Bio-Pharmaceutical Holdings Limited
華 瀚 生 物 製 藥 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)
(Stock Code : 587)

Annual Report 2006/2007

THE MISSION

Strive to be the leading pharmaceutical enterprise specialising in gynecological medicine and medicinal healthcare products for women in the People's Republic of China

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Zhang Peter Y. *(Chairman)*
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Bian Shu Guang
Mr. Wu Xian Peng

Non-Executive Directors
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*
Mr. Tarn Sien Hao

Independent Non-Executive Directors
Professor Kung Hsiang Fu
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew

AUDIT COMMITTEE

Professor Kung Hsiang Fu
(Chairman of audit committee)
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew
Mr. Tarn Sien Hao

REMUNERATION COMMITTEE

Professor Kung Hsiang Fu
(Chairman of remuneration committee)
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew
Mr. Deng Jie
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*

COMPANY SECRETARY

Mr. Zhu Ben Yu *(HKICPA)*

QUALIFIED ACCOUNTANT

Mr. Zhu Ben Yu *(HKICPA)*

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 704, 7th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Bank of China
Guiyang Branch, Jiaxiu Sub-branch

Oversea-Chinese Banking Corporation Limited
Hong Kong Branch

LEGAL ADVISER AS TO HONG KONG LAWS

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

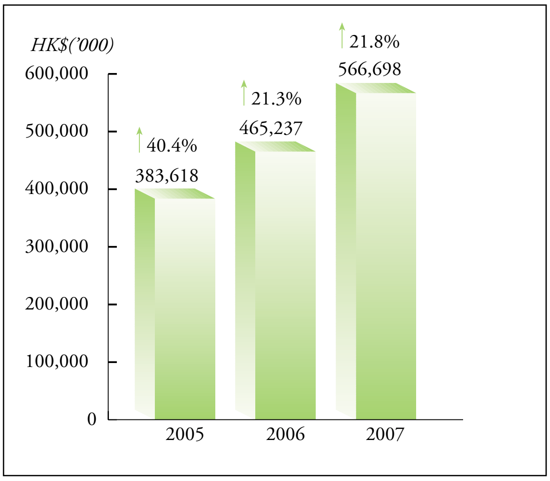
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

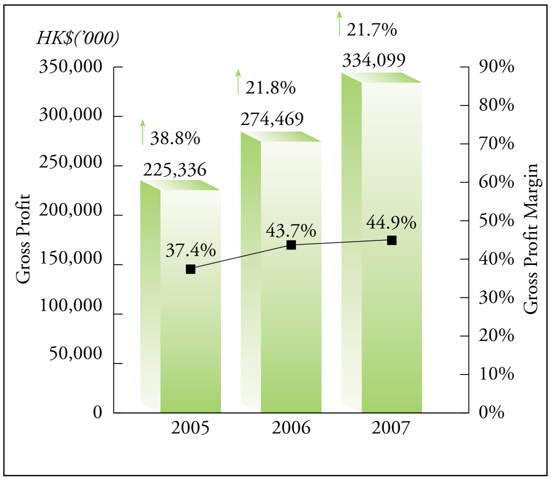
KEY FINANCIALS

	2007	2006	% Change
	HK$'000	*HK$'000*	
Turnover	**743,856**	627,925	↑ 18.5%
• Manufacturing	**566,698**	465,237	↑ 21.8%
• Trading	**177,158**	162,688	↑ 8.9%
Net profit attributable to equity holders	**130,626**	123,146	↑ 6.1%
Diluted earnings per share (HK cents)	**14.8**	14.0	↑ 5.7%
Gearing ratio (%)	**49.1**	18.8	↑ 161.2%
Net Cash	**373,485**	373,818	↓ 0.1%

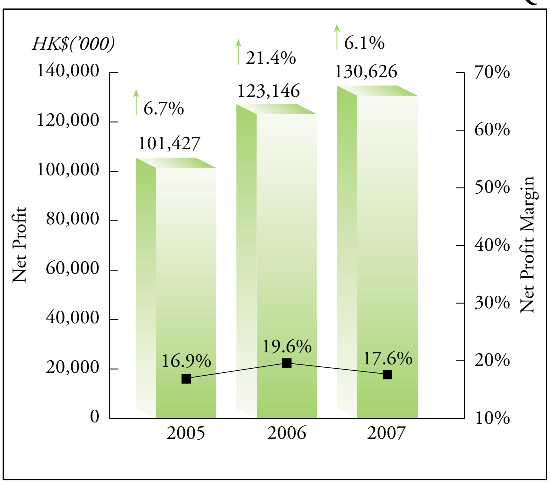
TURNOVER – MANUFACTURING



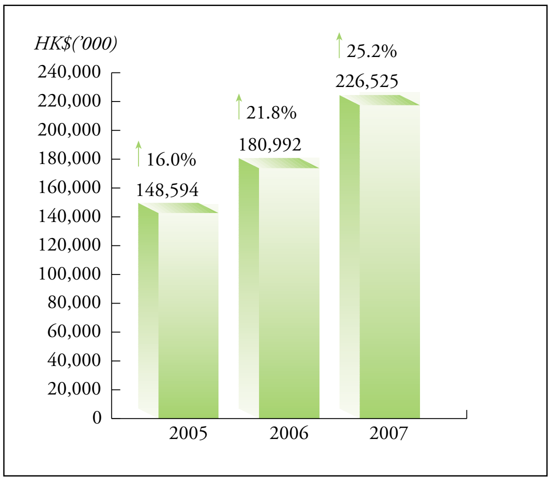
GROSS PROFIT



NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS



EBITDA



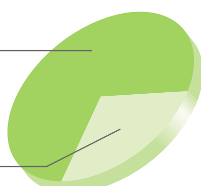
TURNOVER

2007 (figures below are in HK$)

566,698,000 (76%)

Prescription Drugs	322,522,000	(57%)
Over-The-Counter Drugs	113,263,000	(20%)
Medicinal Healthcare Products	130,913,000	(23%)

177,158,000 (24%)

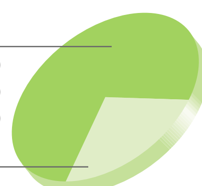


2006 (figures below are in HK$)

465,237,000 (74%)

Prescription Drugs	293,600,000	(63%)
Over-The-Counter Drugs	97,440,000	(21%)
Medicinal Healthcare Products	74,197,000	(16%)

162,688,000 (26%)



Manufacturing Trading

CHAIRMAN'S STATEMENT

On behalf of the board ("**Board**") of directors ("**Directors**") of Hua Han Bio-Pharmaceutical Holdings Limited ("**Hua Han**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual results of the Group for the year ended 30 June 2007 ("**Year**").

BUSINESS REVIEW

Guiyang De Chang Xiang Pharmaceutical Company Limited

Guizhou Hanfang Medicine Manufacture Co. Ltd.

During the Year, results of the Group continued to show an impressive growth. Turnover for the Year amounted to approximately HK$743.9 million, representing a growth of 18.5% as compared with HK$627.9 million for the preceding year. Profit attributable to ordinary equity holders of the Company for the Year amounted to approximately HK$130.6 million. Such growth was mainly attributable to changes in the Group's production structure and sales strategies, raising of operation efficiency, developing of over-the-counter ("**OTC**") market and penetration into hospital market, coupled with the Group's ability to capitalise on a widespread marketing network and nationwide distribution channels.

OPERATION REVIEW

Prescription Drugs

Yeosure Series

Anti-tumour Medicines

During the Year, the economy of the People's Republic of China ("**PRC**") continued to grow and changes in the market and reforms in pharmaceutical industry also continued. As competition intensified, new opportunities emerged. Mergers and acquisitions of corporations remained vigorous in the pharmaceutical industry.

Through continuous implementation of designated strategies of differentiation with forward-looking perspectives, we attained stable development and maintained a strategic edge over other competitors. By raising overall operation efficiency, we strived to operate better than our competitors in a highly competitive market and to continuously improve our service. At the same time, through strengthening the integration of the Group's sale and marketing resources and reformation of the Group's sales and marketing system, we enhanced our sales and marketing platform. Through the measures, the Group raised competitiveness and innovative power, which in turn helped reinforce the Group's strategy, thus enhancing stable growth of the Group's performance.

CHAIRMAN'S STATEMENT

PROSPECTS

OTC Drugs

Fuke Zaizaowan & Fuke Zaizao capsules

The PRC economy keeps developing quickly. The PRC government has been increasing input of resources into medical care and healthcare sectors. Urbanization has expedited. Factors like aging and the increasing awareness of healthcare issues have been boosting the demand for drugs. Supported by the government, the Chinese medicine industry and biological medicine industry enjoy the privilege of operating in a relatively better business environment with prospects of sustainable growth and opportunities for speedy development. These factors create tremendous opportunities for the healthy growth of the core businesses of the Group.

Looking forward, the Group will adhere to its strategic plan of becoming a leading enterprise in the manufacture and sales of gynecological pharmaceutical products and feminine medicinal healthcare products in the PRC and continue to place an emphasis on the integration of internal resources, optimisation of internal resources allocation and manifestation of the Group's comprehensive advantages in strategic planning, product differentiation, marketing, production and operational management. At the same time, we will expedite our research and development of biological medicine.

The Group will continue to implement its inherent business growth strategies of "**Prestigious Brand Name Building**", **"Legend Products**" and " **Nationwide Sales Network**" and further reinforce the leading position of its OTC drugs, namely **Fuke Zaizaowan (婦科再造丸)**, in regional markets and strengthen its marketing momentum across the country. We will also endeavour to raise the market share of feminine medicinal healthcare products under the "**Magic (美即)**" product series and strengthen their competitiveness by tapping into the overseas market. By expanding the market share of the abovementioned products, we can better establish the image of Hua Han as a leader in gynecological medicine and feminine healthcare products in the OTC market and healthcare market. By reinforcing our prescription medicine's position in the hospital market and capitalizing on opportunities arising from the government's rural medical reform through launching of **Yeosure Natural Medicine Lotion (目舒安洗液)** into the rural market, the Directors believe sales of existing prescription medicines will increase. At the same time, we will place emphasis on rolling out the State category one new medicine, namely **Human Nerve Growing Factor Injection (人神經生長因子注射液)**, a product which has been granted an exclusive intellectual property right and a national patent right, **Native DNA Bio Chip (原態基因組生物信息芯片)** and **Nano Silver Anti-inflammatory Gel (納米銀婦女外用抗菌凝膠)**, as key products in the high-end market. We aim to strengthen the Group's publicity and professional brand image in the hospital market, thus raising the Group's profitability in the prescription medicine industry and to continue to boost and consolidate the Group's sustainable growth and profitability.

The Board is confident about the Group's future development. We will, as always, adhere to our designated strategy and continue to recruit high-caliber talents in the industry to our professional management team. With the Group's grasp of the pulse of the industry and profound knowledge of the PRC market, together with our ability to adapt to market changes, use of advanced technology and innovative operating ideas; we are confident that the Group can overcome difficulties and challenges, grasp emerging opportunities and grow speedily, so that we can bring about lasting and maximum value to our shareholders.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our management and staff for their contribution and dedication to the Group. At the same time, I would also like to express my appreciation for the continuous support from our clients, business partners and shareholders. We firmly believe that the concerted patronage and support from various parties to the Group lays a cornerstone for the Group to become a leading enterprise of gynecological pharmaceutical products and feminine medicinal healthcare products in the PRC.

Feminine Medicinal Healthcare Products

Magic

Zhang Peter Y.
Chairman

Hong Kong
18 October 2007

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development ("**R&D**"), manufacture and sale of gynecological medicine and medicinal healthcare products in the People's Republic of China ("**PRC**" or "**China**"). During the Year, the Group continued to achieve a positive return through its own and joint national distribution channels as well as extensive marketing network.

MARKET REVIEW

During the Year, the economy of China was able to maintain speedy growth. Production and sales in the pharmaceutical industry grew relatively quickly. Selection of strong corporations and elimination of weak corporations expedited. With the enhancement of the regulation of the medicine industry in respect of development, production and sales, the improvement in the rules regulating production and operation and the concentration of the resources on strong corporations, the medicine industry maintained an overall stable development.

In respect of policy development, medical reforms were launched with higher frequency and greater strength in 2006 showing the government's determination in reforming the medicine industry. The chemical medicine industry suffered the most from the policy changes and faced the most intense competition. Although the business environment for China's over-the-counter (**"OTC"**) medicine industry was relatively better, the prescription medicine industry was plagued with a short-term difficulty which forced less competitive corporations to move into the OTC market, thus intensifying competition in the OTC market. Although the medicine industry has been benefiting from the separation of doctor consultation and medicine prescription reform, there was still short term pressure on profits. The biological medicine industry benefited from the revival of demand and increased input of resources pursuant to the Government's policy on public sanitation, thus boosting the overall performance of the industry.

BUSINESS REVIEW

During the Year, the Group's business maintained stable growth. This was mainly due to the Group's fundamental strategy of becoming a leading corporation in gynecological medicine and feminine medicinal healthcare products, and its ability to maintain a strategically leading position. At the same time, the hospital brand image which we have established over the past 15 years has reinforced our marketing strength. We maintained a stable growth in our prescription medicine business and further consolidated the Group's resources through regulating the Group's production structure, adopting new sales strategies, raising operation efficiency, integrating sales network and extending marketing channels, opening up of OTC markets and expediting growth of "**Magic（美即）**" series products. We were able to consolidate our status and maintain a leading position in the market, thus realizing sustainable growth for our business.

FINANCIAL PERFORMANCE

During the Year, the Group's turnover was approximately HK$743.9 million, of which approximately HK$566.7 million (approximately 76.2% of the Group's turnover) was derived from sales of the Group's own products, representing an increase of approximately 21.8% as compared with approximately HK$465.2 million of last year. Prescription drugs contributed approximately HK$322.5 million in sales during the Year, representing approximately 56.9% of the total sales of the Group's own products. OTC drugs recorded approximately HK$113.3 million in sales, accounting for 20.0% of the total turnover of the Group's own products and a 16.3% increase over last year (2006: approximately HK$97.4 million). Feminine medicinal healthcare products recorded approximately HK$130.9 million in sales, representing 23.1% of the total turnover of the Group's own products and a 76.4% increase over last year (2006: approximately HK$74.2 million). In addition, approximately HK$177.2 million of the Group's turnover for the Year was attributable to trading business.

MARKET SEGMENTS

During the Year, through the enhancement of the operation platforms in the PRC and the integration of both internal and external resources to improve overall operation efficiency, the Group strived to operate better than its competitors in an intensifying market. At the same time, through reinforcing sales integration, we have developed and expanded our sales network and distribution channels to build a stronger operation platform.

Prescription drugs

In the beginning of the Year, in line with the relatively stringent medical policy of the PRC, the Group had streamlined the sales team and strengthened the professional sales team by recruiting more high-quality expertise. During the Year, through various marketing campaigns, we further reinforced the leading position of the Group's major products.

Our **Yeosure Natural Medicine Lotion（日舒安洗液）** joined the China Primary Health Care Foundation（中國初級婦女保健基金會）project. Pursuant to the project surveys conducted with women in Luyi county in Henan Province, Qitaihe City in Helongjiang Province and Lianyungang City in Jiangsu Province, **Yeosure Natural Medicine Lotion（日舒安洗液）** was chosen under the project as a medicine for curing gynecological illnesses for its good treatment effect. The Directors believe this will help increase the sales of **Yeosure Natural Medicine Lotion（日舒安洗液）** and enhance the Group's brand image in gynecological products.

Besides, the Group actively participated in a number of exhibitions and conferences in the PRC, including, the 56th China National Pharmaceutical Fair in Shenzhen（深圳第56屆全國藥品交易會）, the 57th China National Pharmaceutical Fair in Dalian（大連第57屆全國藥品交易會）, the 58th China International Medicine Spring Fair in Nanjing（南京第58屆中國國際醫藥春季交易會）, the 2007 1st New City Production and Operation Technology Display Fair in Guiyang in China（2007中國貴陽首屆創新型城市產學研暨民營科技成果展示交易會）. In all the above exhibitions and conferences, the Group's State category one new biological medicine **Human Nerve Growing Factor Injection（人神經生長因子注射液）** received great positive response. Participation and presentation in these exhibitions and conferences boosted the Group's image and customers' confidence.

OTC drugs

Fuke Zaizaowan (婦科再造丸) continued to be the Group's core branded OTC medicine. The main promotional strategy of this product line lies in product branding and enhancement of the Group's corporate image through brand promotion and points of sale promotion. In addition to consolidating and developing markets in six provinces, namely, Guizhou, Yunnan, Sichuan, Chongqing, Shaanxi and Gansu, we further extended our marketing plans to more than 10 other regions including Guangdong, Guangxi, Hubei, Hunan, Beijing and Shanghai. At the same time, by capitalizing on the emerging trend of cooperative medical care with new rural villages and optimizing the regional brand name advantage of **Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) ("DCX")** and the product type advantage, we have achieved promising sales results in the rural markets.

Feminine medicinal healthcare products

The Group has continuously strengthened the implementation of the brand strategy and differentiation strategy for the "**Magic 美即**" series products and has explored further into the distribution channels. Through closer strategic co-operation with Watsons, Carrefour, Wal-Mart, 1000colour Department Store, PARKnSHOP, Jusco and other famous nation-wide retail channels, the Group's sales channels cover most of the major cities throughout the PRC. Points of sale for this product series had grown significantly from approximately 700 in last year to more than 1,000 during the Year. The Group has also improved the depth and breadth of the local sale channels in key regional markets such as Guangzhou, Shenzhen, Beijing, Shanghai and Northeasten region of the PRC to further penetrate into these markets. In view of the satisfactory market response from consumers to the marketing campaign of this series, and in order to further strengthen the brand image and technical quality of the "**Magic 美即**" series products, the Group has established a wholly-owned subsidiary in Korea in December 2006. Such subsidiary is designated to hold the trademark and patent in respect of the "**Magic 美即**" brand and products in Korea, and also to form strategic alliances with renowned universities and research institutes with a view to conducting in-depth research and development of the "**Magic 美即**" products and enhancing their products with foreign advanced technologies. At present, product variety under this "**Magic 美即**" series has increased to more than 100 items, of which approximately 50 items have been launched in the market, covering three major categories of feminine healthcare, namely facial treatment, eye treatment and body treatment. The development of the "**Magic 美即**" series products has firmly established the foundation for the Group's expansion into the international market. Since December 2006, "**Magic 美即**" series products have been launched in Hong Kong and Macau with a coverage of about 170 points of sale under the Watsons network. The sale prospect has been promising.

AWARDS

During the Year, subsidiaries of the Company and products of the Group were accredited with various awards as follows:

Guizhou Hanfang Medicine Manufacture Co., Ltd.(貴州漢方製藥有限公司)("GHMM")

1. Awarded "National honest and law-abiding town enterprise"(全國誠信守法鄉鎮企業) by the Ministry of Agriculture in 2006;

2. Received from the Administration for Industry and Commerce of Guizhou the honourable title of "Award of 'Unit with Commitment to Contracts and Credibility' for 7 Consecutive Years from 1999 to 2006"(一九九九年至二零零六年連續7年「守合同、重信用」單位);

3. **Yeosure Natural Medicine Lotion(日舒安洗液)** was granted the title of "Number One Brand in China Gynecological Medicines(中國婦科藥品第一品牌)" in the 2006 Top Brands Assessment in National Pharmaceutical Industry(二零零六年全國醫藥行業第一品牌評價工作) organized by the PRC News Association(中國新聞社); and

4. Awarded an "honesty cup"(誠信金鼎) by Guizhou Guiyang Yunyan Committee and Guiyang Yunyan Government(貴州省貴陽市雲岩區委,區政府).

Guiyang De Chang Xiang Pharmaceutical Company Limited(貴陽德昌祥藥業有限公司)("DCX")

1. Awarded "Enthusiastic in public welfare and innovative business Company"(熱心公益事業先進單位) by Bureau of Commerce of Guizhou Province(貴州省商務廳) and Guizhou Province Foreign Investment Enterprise Association(貴州省外商投資企業協會)

2. Trademark "**De Chang Xiang**" and "**強力**" were awarded "Famous trademark in Guizhou Province"(貴州省著名商標) by Administration for Industry and Commerce of Guizhou Province(貴州省工商行政管理局)

3. **Fuke Zaizaowan(婦科再造丸)** was recognized as "China's renowned brand name(中國著名品牌)" by the Social Survey Institute of China(中國社會調查所), a renowned survey institute in China, in the "Product survey on market satisfaction and reputation(產品社會滿意度、信譽度公益性調查)" on gynecological medicinal products in 2006. It was also awarded by the institute a medal and an honourable certificate in December 2006.

4. **Fuke Zaizaowan(婦科再造丸)** was also granted the title of "Number One Brand in China Gynecological Medicines(中國婦科藥品第一品牌)" in the 2006 Top Brands Assessment in National Pharmaceutical Industry(二零零六年全國醫藥行業第一品牌評價工作) organized by the PRC News Association(中國新聞社).

5. In 2006, **Fuke Zaizao Capsules(婦科再造膠囊)** and **Duzhong Jiangya Tablets(杜仲降壓片)** were both granted second-class honour as an outstanding new product of Guiyang City.

6. In 2006, **Duzhong Butiansu Tablets(杜仲補天素片)** and **Duzhong Zhuanggu Pills(杜仲壯骨丸)** were both granted third-class honour as an outstanding new product of Guiyang City.

Guangzhou Magic Skincare Company Limited (廣州美即化妝品有限公司)

1 In Hong Kong Watsons' "2007 Summer Champions" activity, "**Magic (美即)**" series face mask was awarded "Hottest face mask series".

2 "**Magic (美即)**" series face mask was awarded "Inventors of Ten Lifestyles in Shenzhen" (深圳十大生活方式創造者) by Shenzhen Selection Committee of Ten Lifestyles (深圳十大生活方式徵選組委會). The slogan for the award was "Magic face mask changes Chinese women's skin through "active herbal extraction" (植活素) and through its profound understanding of women's philosophy of beauty, it contributes significantly to women's leisure lifestyle".

3. The "**Magic (美即)**" series products were also awarded "the best public cosmetics brand" in the 2nd Assessment for the most favorite brand of Shenzhen citizens by Chamber of Beauty & Cosmetics of National Federation of Industry & Commerce (中華全國工商聯合會美容化妝品業商會), Guangdong Chamber of Daily Used Chemicals (廣東省日化商會), Chamber of Beauty & Cosmetics of Shenzhen (深圳市美容化妝品業商會) and Publishing House of Shenzhen Press (深圳報業集團晶報社).

RESEARCH AND DEVELOPMENT

During the Year, the Group introduced the proprietary gynecological recuperation product **Fuke Zaizao capsules (婦科再造膠囊)** into the market. The product was well-received by the market.

In addition to the Group's State category one new biological medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)**, the Group also has a **Native DNA Bio Chip (原態基因組生命信息芯片)**. The two products will help the Group to expand into a new area of biological medicines and products, thus opening up a new line of business for the Group in the future.

The Group will use its best endeavour to promptly launch and market the State category one new biological medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)**, a national patent right and an exclusive intellectual property right of a bio-pharmaceutical product. Meanwhile, the Group has started the research and development in deriving other oral solutions from residues of raw materials in the State category one new medicine, such as **Taihuasu (胎華素)**, **Taihuanghuosu (胎黃活素)** and **Taijihuosu (胎薊活素)**. These oral solutions are highly effective for anti-aging and beauty purposes, and the management expected that they would have a huge potential in the market and a promising profitability prospect. Following the launch of the **Human Nerve Growing Factor Injection (人神經生長因子注射液)** to the market, the Group will reinforce and raise its brand and competitive status in the prescription drugs market, thus furthering the profitability of its prescription drugs.

During the Year, the Group has a new gynecological anti-inflammatory product, **Nano Silver Anti-inflammatory Gel (納米銀婦女外用抗菌凝膠)**, which is mainly used for curing vaginitis. The launching of the product will enrich our gynecological product mix.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, as the State Food and Drug Administration of the PRC (中國國家食品藥品監管局) **("SFDA")** delayed in its internal procedure for administrative application, launching of **Fu Shu Le Tablets (婦舒樂片)**, the Group's new Chinese medicine for curing gynecological atropic vaginitis which is common in women at menopause; and the new medicine **Secmidazole Tablets and Capsules (塞克硝唑片及膠囊)**, a new product of the Group for curing gynecological trichomoniasis and anerobe, are expected to be delayed. The Group will continue to monitor the application process of new drugs and aim to launch the products to the market in a timely manner.

Other products in the pipeline mainly concern gynecological medicines and prescription drugs.

In order to enhance the quality and competitiveness of "**Magic 美即**" series products, the Group, through the setting up of a wholly-owned subsidiary in Korea, would form strategic alliances with certain renowned Korean universities and R&D institutions, which would enable the Group to keep abreast of market information, integrate the results of modern scientific research technologies and continue the R&D of various reserve products with regard to product composition, forms, features and production techniques.

PRODUCTION FACILITIES

The Group had a total of 26 production lines accredited with the Good Manufacturing Practice ("**GMP**") certification issued by the SFDA, covering most types of medication. During the Year, the production lines complemented each other, and through the implementation of integration measures which facilitated sharing of resources and further exploration of the Group's internal potential, the Group's production management strengthened and enjoyed greater flexibility in coping with market competition.

During the Year, GHMM had 5 production lines producing lotion, syrup, lyophilized powder of injection, large-volume parenteral solutions (with anti-tumour medicine), small-volume parenteral solutions (with anti-tumour medicine). Such production lines comply with the GMP production requirement issued by the SFDA. They have passed the reassessment by the SFDA and were accredited with a new GMP certificate.

The construction of newly established high-tech bio-pharmaceutical production plant for the Group's bio-pharmaceutical product – the State category one new biological medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)** is close to completion and production facilities have been ordered. The Group is in the process of preparing an application to the SFDA for a GMP certification.

To cope with the rapid growth of the demand for "**Magic (美即)**" series products, the Group is planning to construct a new production complex in Guangzhou.

PROSPECTS

In the midst of medical reform during the Year, the overall profit in the pharmaceutical industry has risen. Such reforms are expected to facilitate the continuous and steady growth of the industry. However, the operation environment for medicine corporations has not been improved. As a result, small to medium-sized corporations will continue to face the risk of being eliminated by the market. The Directors believe that this provides more opportunities for the Group.

Medicinal healthcare products has great market potential in the PRC. According to Euromonitor, an authoritative research institution, it is expected that in 2010, the total sales of the Chinese cosmetics market will reach RMB120 billion and market share for medicinal healthcare products or functional healthcare products will grow by 20% annually and will reach RMB48 billion. Although market opportunities are vast, specialists in the industry are generally of the view that the PRC medicinal healthcare market is at an initial stage of development. There are great potentials for the "**Magic（美即）**" series products in the medicinal healthcare market. The Group will continue to strive to further improve its market share, enlarge its production capacity, consolidate its sales network and increase its turnover.

Looking ahead, the Directors believe that, product type and sales channel would be paramount for success in the pharmaceutical industry. The Group will continue with one of its fundamental strategy of development through timely merger and acquisitions. The Group will continue to aim at being a leading manufacturer in PRC for gynecological medicine and feminine medicinal healthcare products. At the same time, as we have grasped the development trend for biological medicine, we will focus on this field and look for new opportunities. We rely on our strong development record in PRC, and select target companies which would benefit the Group in terms of branding, product varieties, market network and R&D. Through integration, the Group will strengthen management of the Group, make the Group more powerful, more stable in its operation and raise the Group's efficiency, and yield a higher return for the Group.

In the coming year, the Group will implement the following measures:

1. Unify our operating platform in the PRC and integrate internal resources from sales and marketing, finance, administration, human resources and manufacturing streams. We will integrate our internal corporate structure, assets restructuring and improve budget management. We will continue to improve business flows and internal control, in particular cost control, so that we can reinforce our operation management philosoply of adapting swiftly to market changes and further strengthen risk management.

2. Through the launching of the State category one new biological medicine **Human Nerve Growing Factor Injection（人神經生長因子注射液）**, we will continue to consolidate and aim to raise the sales of prescription medicine, enhance sales of OTC and feminine medicinal healthcare products and thus expedite the Group's development in the field of prescription drugs, OTC drugs and feminine medicinal healthcare products. At the same time, we will actively pursue strategic cooperation with major research and development institutions in the PRC. We aim at using R&D breakthroughs as one of the driving force for the Group' development.

3. Regulate product structure, so as to raise the proportion of sales of high value-adding products, and focus on sales of the State category one new medicine **Human Nerve Growing Factor Injection (人神經生長因子注射液)** and **Native DNA Bio Chip (原態基因組生命信息芯片)**. We aim at raising the proportion of sales of biological medicines and products in the Group's profit.

4. Establish a unified sales platform, strengthen marketing strategy, continue to enlarge establishment for professionalization, integrate sales channels and enlarge sales; strengthen market resources management, enhance relationships with major customers and long-term customers, expand new client base and reduce the allocation of resources to advertisement.

5. Stringently control production process to further improve product quality.

6. Focus on the Group's development strategy and identify merger and acquisition opportunities with companies possessing an edge and potential to fuel the Group's development as well as to raise the Group's profit and return for shareholders.

Looking forward, the Group will continue to endeavour to cope with the changes in the regulatory environment, the development of the international and the PRC pharmaceutical markets and the development policy and direction of the PRC Government. The Group will also strive to capitalize on the demands for healthcare products and fulfil corporate social responsibility, economic responsibility and technological innovation responsibility. The Group will aim to build a corporation with core competitive power and fulfil corporate responsibility of providing "safe, effective, economic, reasonable, convenient and timely" medicine and maximize shareholders' return.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 30 June 2007, the Group had unpledged cash and bank balances of approximately HK$871.5 million (30 June 2006: approximately HK$523.9 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to equity holders of the Company was approximately 49.1% (30 June 2006: approximately 18.8%). Net current assets was approximately HK$1,097.7 million (30 June 2006: approximately HK$649.4 million) and the current ratio was maintained at the healthy level of approximately 9.0 (30 June 2006: approximately 3.7) as at 30 June 2007.

The finance costs of the Group for the Year amounted to approximately HK$34.7 million (2006: approximately HK$11.3 million), representing approximately 4.7% (2006: approximately 1.8%) of the Group's total turnover and an increase of approximately HK$23.4 million over last year. The increase in finance costs was principally due to increase in bank loans.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group did not have any material contingent liabilities (30 June 2006: Nil).

BANK BORROWINGS

As at 30 June 2007, the Group had outstanding bank loans of approximately HK$498.0 million from the banks in the PRC and Hong Kong (30 June 2006: approximately HK$157.6 million), approximately 12.4% (30 June 2006: approximately 75.7%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollar.

As at 30 June 2007, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain prepaid land lease payments and buildings of the Group; (iii) pledge of equity interests of certain subsidiaries of the Company; and (iv) corporate guarantees given by certain subsidiaries of the Company.

SEASONAL OR CYCLICAL FACTORS

During the Year, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

FOREIGN EXCHANGE EXPOSURE

During the Year, the Group mainly generated revenue and incurred costs in Renminbi. Renminbi did not fluctuate materially during the Year. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

TREASURY POLICIES

During the Year, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC and Hong Kong. Interest rates of most of these were calculated by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollar.

COMMITMENTS

As at 30 June 2007, the Group had contracted commitments of HK$33.2 million (30 June 2006: HK$13.2 million) and HK$10.7 million (30 June 2006: HK$34.0 million) in respect of purchases of technical knowhow/patent and construction of property, plant and equipment.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2007, the Group had a total of 1,048 employees (2006: 1,304), of whom 1,038 were based in the PRC, with the rest stationed in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Year, staff costs (including Directors' remunerations) amounted to approximately HK$28,555,000 (2006: approximately HK$25,010,000). Staff costs accounted for 3.8% of the Group's turnover (2006: 4.0%) during the Year. The Group participated in retirement benefit schemes for its staff both in Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the Year.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK2 cents per share of the Company for the Year (2006: HK2 cents per share).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Peter Y. ***(張岳)***, aged 45, is the Chairman of the Company and one of the founders of the Group. Mr. Zhang graduated from Guiyang Teacher Training College (貴陽師範學院) in 1982 with a bachelor degree in chemistry. Mr. Zhang has been appointed as a standing member of the Fifth Chinese People's Political Consultative Conference in Yunyan District of Guiyang City (貴陽市雲岩區第五屆政協常委). In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. Mr. Zhang was awarded the title of 1998-2002 Guiyang City Young and Middle-aged Technological Leader (貴陽市1998-2002 年度中青年科技骨幹) in 2000. Given his expertise in the area of chemistry and his extensive knowledge in the pharmaceutical industry, Mr. Zhang is in charge of the Group's overall strategic planning. With more than 10 years of experience in corporate financial planning, Mr. Zhang is responsible for the Group's strategic planning, financial planning and control.

Mr. Deng Jie ***(鄧杰)***, aged 43, is the Chief Executive Officer and an Executive Director of the Company, and one of the founders of the Group. Mr. Deng graduated from Peking University in 1985 with a bachelor degree in law. Mr. Deng was given the award of Outstanding Young Entrepreneur of the State (全國優秀青年企業家) and Top Ten Outstanding Youths in Guizhou (貴州省十大傑出青年) in 1993 and 1994 respectively, and was appointed as a member of the Eigth and the Ninth Chinese People's Political Consultative Conference in Guizhou (貴州省第八屆及第九屆政協委員) since 1998. In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. For the past eight years, Mr. Deng has been actively involved in establishing the Group's sales network throughout the PRC and is experienced in training the Group's sales and marketing team. He has over 10 years of experience in corporate management, and is responsible for the Group's strategic management and operation management.

Mr. Long Xian Feng ***(龍險峰)***, aged 45, is an Executive Director of the Company and the General Manager of the Group. Mr. Long graduated from Peking University (北京大學) in 1985 with a bachelor degree in law. In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. Mr. Long joined the Group in 1993 and is responsible for the Group's research and development of new products. Since joining the Group, Mr. Long has led the Group to successfully developing and introducing many pharmaceutical products. Mr. Long is responsible for the operations of the Group's businesses in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Bian Shu Guang (邊曙光), aged 49, is an executive Director of the Company and the deputy General Manager of the Group. He joined the Group in 1993 and had served as the general manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司) ("**GHMM**"), a wholly-owned subsidiary of the Company, until January 2007. Mr. Bian graduated from Guiyang Teacher Training College (貴陽師範學院) in 1984 with a bachelor degree in Chinese. Mr. Bian obtained a Certificate in Master of Business Administration from the Postgraduate School of Renmin University of China (中國人民大學研究生院) in 2004. Mr. Bian is a councilor of the Guizhou Pharmaceutical Society (貴州省藥學會常務理事) and an individual member of the Chinese Society of Clinical Oncology (中國抗癌協會臨床腫瘤學協作專業委員會). From 1984 to 1993, Mr. Bian was an editor at the Publishing Office of the Promotion Department of the Guizhou Provincial Commission (貴州省委宣傳部雜誌社). With his outstanding background in the industry, Mr. Bian is responsible for public relations of the Group, operation of mergers and acquisitions and maintaining a close relationship between the Group and its strategic partners.

Mr. Wu Xian Peng (吳顯鵬), aged 38, is an Executive Director of the Company. Mr. Wu graduated from Guizhou Industrial Institute (貴州工學院) and obtained a bachelor degree in engineering in 1991. Prior to joining the Group in July 1997, Mr. Wu worked for the general office of the Guizhou provincial government (貴州省人民政府辦公廳) for six years.

Non-Executive Directors

Mr. Wee Ee Lim (黃一林), aged 46, is a Non-Executive Director of the Company. Mr. Wee holds a Bachelor of Arts (Economics) from Clark University. He is the President and Chief Executive Officer of Haw Par Corporation Limited, a public company listed on the Singapore Exchange. He is also a Director of various public listed companies namely, United Industrial Corporation Limited, Singapore Land Limited, UOL Group Limited and Hotel Plaza Limited, as well as a Board Member of Sentosa Development Corporation.

Mr. Tarn Sien Hao (譚顯浩), aged 40, is a Non-Executive Director of the Company. Mr. Tarn holds a Bachelor of Science from Columbia University, a Bachelor of Arts from the State University of New York and a Master of Business Administration from the University of Dubuque. He is the General Manager (Corporate Development) of Haw Par Corporation Limited, a public company listed on the Singapore Exchange. Mr. Tarn was formerly an alternate Director to Mr. Wee Ee Lim, a Non-Executive Director, and became a Non-Executive Director on 8 May 2006.

Mr. Chng Hwee Hong (莊輝煌), aged 57, was appointed as an alternate Director to Mr. Wee Ee Lim on 8 May 2006. Mr. Chng holds a Bachelor of Science (Hons.) in Applied Chemistry and a Diploma in Business Administration from the University of Singapore. He is an executive director of Haw Par Corporation Limited, a public company listed on the Singapore Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Professor Kung Hsiang Fu (孔祥復), aged 65, is an Independent Non-Executive Director of the Company. Professor Kung is an academician (院士) of the Chinese Academy of Sciences (中國科學院). He has over 36 years of experience in the medical research. During 1986-1998, he was the Chief of the Laboratory of Biochemical Physiology National Cancer Institute of the National Institute of Health in the United States for 12 years. He has published over 300 scientific articles and is the inventor of a number of US patents. Professor Kung has served as Director of the Institute of Molecular Biology of the University of Hong Kong (香港大學) for 7 years since 1998. Currently, he is a Professor of Virology of the Centre of Emerging Infectious Diseases of the Chinese University of Hong Kong (香港中文大學). Professor Kung is the Chairman of the Remuneration Committee and the Audit Committee of the Company.

Professor Tso Wung Wai (曹宏威), aged 66, is an Independent Non-Executive Director of the Company. Professor Tso holds a doctorate degree in biochemistry from the University of Wisconsin-Madison in the United States of America. Before his retirement, Professor Tso has taught at the department of biochemistry of the Chinese University of Hong Kong (香港中文大學) for 24 years. Currently he is an adjunct professor of the department. Professor Tso's research interests include immobilised cell biotechnology, inorganic biochemistry and reproduction biochemistry. Professor Tso is devoted to social events. He was an honorary consultant of the scientific consultants team of the Hong Kong Government, a member to the Hong Kong Advisory Committee on the Quality of Water Supplies, and a member of the Advisory Committee on the Safety of the Daya Bay Nuclear Power Plant. He is also a deputy to the Ninth and Tenth National People's Congress of the Hong Kong Special Administrative Region. Professor Tso was awarded the Bronze Bauhinia Star award in 2002 by the Hong Kong SAR Government for his meritorious public and community services.

Mr. Hon Yiu Ming, Matthew (韓耀明), aged 47, is an Independent Non-Executive Director of the Company. Mr. Hon graduated from the University of East Asia, Macau (澳門東亞大學) with a master degree in Business Administration. He is a Certified Public Accountant (Practising) in Hong Kong and is now the sole-proprietor of Y. M. Hon & Co., a Hong Kong Certified Public Accountants firm.

SENIOR MANAGEMENT

Mr. Zhu Ben Yu (朱本宇), aged 35, is the Company Secretary of the Company and the Financial Controller of the Group, and is responsible for the Group's financial management and internal auditing. Mr. Zhu is a fellow member of The Association of Chartered Certified Accountants and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Zhu graduated from The Chinese University of Hong Kong (香港中文大學) with a bachelor degree in Business Administration. Mr. Zhu has over 9 years of experience in auditing and financial management. Before joining the Group, he worked in an international accounting firm for 5 years. He was then employed as the financial controller and company secretary of a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, one of whose subsidiaries is a leading manufacturing company of printed circuits boards in Hong Kong.

Mr. Yao Rong (姚榮), aged 46, is the General Manager Assistant of the Group. Mr. Yao graduated from the Guizhou University (貴州大學) with a bachelor degree in Philosophy in 1982. He joined the Group in 1993 and assists the General Manager of the Group who is responsible for operations of business in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Jin Yi (張勁翼), aged 45, is the Chairman of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Zhang graduated from the Northwestern Polytechnical University (西北工業大學) and obtained a bachelor degree in Engineering in 1984. He is a senior engineer. He joined the Group in 2004 and is responsible for the management of the manufacturing function of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Mr. Zhou Kequan (周科全), aged 46, is the General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Zhou graduated from the Guiyang Medical University in 1983 with a bachelor degree in Medicine. He also has a postgraduate degree certificate in psychiatry medicine from West China University of Medical Sciences. He joined the Group in 2007 and was responsible for the operation work for Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Before joining the Group, he was the Business Director of United Laboratories (聯邦製藥), Chief Executive Officer of Hainan Green Tide Medicine Co., Ltd. (海南格林泰德藥業) and General Manager of Hainan Haiyao Co., Ltd. (海南海藥銷售公司).

Ms. Cheng Hui (程慧), aged 36, is the Executive Deputy General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Ms. Cheng graduated from Guizhou College of Finance and Economics in 1995 with a certificate in diploma in Sales & Marketing. Later, she obtained a graduate diploma from the School of Jiangxi Finance and Economics, and a postgraduate diploma in Business Administration from Beihang University. She joined the Group in 1995, and is responsible for the sales function of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Ms. Wang Liu (王柳), aged 44, is the Deputy General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Ms. Wang graduated from the clinical medical profession in Zhejiang Medical University in 1986 with a bachelor degree in medicine. She joined the Group in 2007, and was responsible for the sales of OTC medicine of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Before joining the Group, she was the Deputy General Manager for United Laboratories (聯邦製藥) and the Vice President of Dong Sheng pharmaceutical Co., Ltd. (東盛藥業有限公司).

Mr. Zhang Kun Mou (張昆謀), aged 44, is the Chairman and General Manager of 貴州泛特爾生物技術有限公司. Mr. Zhang graduated from Harbin Engineering University and obtained a bachelor degree in Engineering in 1984. In 1989, he graduated from Shanghai Donghua University (上海東華大學) (formerly known as China Textile University (中國紡織大學)), with a master degree in engineering and served as a senior engineer. Mr. Zhang joined the Group in 2000 and is responsible for managing the production facilities of 貴州泛特爾生物技術有限公司.

Mr. Yao Qihong (姚啟弘), aged 61, is the Deputy General Manager of 貴州泛特爾生物技術有限公司. Mr. Yao graduated from Guizhou University of Technology in 1968 with a bachelor degree in Engineering and served as an engineer. He joined the Group in 2006 and was responsible for the administration and coordination of external affairs of 貴州泛特爾生物技術有限公司. Before joining the Group, he served in the Department of Foreign Trade & Economic Cooperation of Guizhou Provincial Government for 13 years. He was also a member of the Scientific Decision Expert Consultation Group (科技決策專家諮詢組) for Kaili City Government in Guizhou Province.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yao Chang Fa (姚廠發), aged 42, is the Chairman of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Mr. Yao graduated from Guiyang Chinese Medical College (貴陽中醫學院) in 1987 and acquired the professional qualification for principal Chinese medical practitioner in 1996. Mr. Yao joined the Group in 1992 and is responsible for the production and management of the manufacturing function for Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司).

Ms. Jiang Xiao Wen (蔣曉文), aged 48, is the General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Ms. Jiang graduated from Heilongjiang Business Institute (黑龍江商學院) in 1982 and is a certified Pharmacist. She joined the Group in 2004 and acted as the general manager of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) (formerly known as 貴陽中藥廠) and was responsible for the operations of businesses of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司).

Mr. Ma Weidong (馬衛東), aged 39, is the Deputy General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Mr. Ma graduated from Guiyang Chinese Medical College (貴陽中醫學院) in 1990, majoring in pharmacy, and served as certified Pharmacist. He joined the Group in 2004 and is responsible for the production technology and quality control of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司).

Mr. Tang Siu Kun, Stephen (鄧紹坤), aged 42, is the Chairman of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) and Guangzhou Magic Skincare Company Limited (廣州美即化妝品有限公司). Mr. Tang graduated from the Curtin University of Technology in Australia with a bachelor degree in commerce. Mr. Tang holds a master degree in international business management from the City University of Hong Kong. He is also a member of the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tang joined the Group in 2000 and has over 10 years experience in corporate financial control and corporate management. He is responsible for the overall strategic planning and financial planning and controlling of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) and Guangzhou Magic Skincare Company Limited (廣州美即化妝品有限公司).

Mr. Gao Fei (高飛), aged 36, is a Director of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司). Mr. Gao graduated from the Guizhou University (貴州大學) in 1992 with a bachelor degree in philosophy. He joined the Group in 1994 and is responsible for public relation coordination work of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司).

Mr. She Yu Yuan (佘雨原), aged 36, is the General Manager of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司). Mr. She graduated from South China University of Technology (華南理工大學) in 1994. He joined the Group in 2004 and is responsible for the operations of businesses of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) and Guangzhou Magic Skincare Company Limited (廣州美即化妝品有限公司).

REPORT OF THE DIRECTORS

The directors ("**Directors**") of Hua Han Bio-Pharmaceutical Holdings Limited (the "**Company**") are pleased to their report and the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2007 ("**Year**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group include the manufacture and sale of gynecological pharmaceutical products and feminine medicinal healthcare products. Details of the principal activities of the principal subsidiaries of the Company are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's profit for the Year and the state of affairs of the Company and of the Group as at 30 June 2007 are set out in the financial statements on pages 42 to 105 of this annual report.

The Directors recommend the payment of a final dividend of HK2 cents per ordinary share of HK$0.10 each in the share capital of the Company ("**Share**") in respect of the Year, to the shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company on 21 December 2007. The proposed dividend will be paid on or about 28 February 2008 if the recommendation is approved by the Shareholders at the forthcoming annual general meeting ("**Annual General Meeting**") of the Company to be held on 21 December 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to the proposed final dividend for the Year, the register of members will be closed from Wednesday, 19 December 2007 to Friday, 21 December 2007 (both days inclusive) during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 18 December 2007 for registration.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's published audited financial statements prepared on the basis set out therein, is set out on pages 106 of this annual report. This summary does not form part of the audited financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the Year, together with the reasons therefor, are set out in notes 31, 32 and 29 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the Year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 33(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2007, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$378,069,000, of which HK$17,615,000 has been proposed as a final dividend for the Year. The amount of HK$359,185,000 *(note 33(b))* standing to the credit of the share premium account of the Company may be distributed, 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 and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the Year.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the Year were:

Executive Directors:

Mr. Zhang Peter Y.
Mr. Xu Peng *(retired on 21 December 2006)*
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Bian Shu Guang *(appointed on 26 January 2007)*
Mr. Wu Xian Peng

Non-executive Directors:

Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*
Mr. Tarn Sien Hao

Independent non-executive Directors:

Professor Kung Hsiang Fu
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew

In accordance with the existing article 108(A) of the Company's articles of association, each of Mr. Deng Jie, Professor Tso Wung Wai, Mr. Wu Xian Peng and Mr. Hon Yiu Ming, Matthew will retire from the office of directorship by rotation at the Annual General Meeting. Each of Mr. Deng Jie, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew, being eligible, offers himself for re-election as Director at the Annual General Meeting, while Mr. Wu Xian Peng has not offered himself to be re-elected as Director at the Annual General Meeting.

Further, according to Article 112 of the Articles, any Director appointed by the Directors under that Article to fill casual vacancy on the Board shall hold office only until the next following general meeting and shall then be eligible for re-election at the meeting. Pursuant to that Article, the office of directorship of Mr. Bian Shu Guang, who was appointed as an executive Director on 26 January 2007, will end at the Annual General Meeting. Mr. Bian Shu Guang, being eligible for re-election, offers himself for re-election at the Annual General Meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors a written confirmation of his independence from the Group. Based on such confirmations, the Company considers that each of such Directors to be independent from the Group for the purpose of Rule 3.13 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 21 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhang Peter Y., Mr. Deng Jie and Mr. Wu Xian Peng has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2002, which is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party on the other. Mr. Bian Shu Guang has entered into a service contract for an initial term of 36 months from 26 January 2007 to 25 January 2010, unless terminated by not less than three months notice in writing served by either party on the other.

The independent non-executive Directors and non-executive Directors are appointed for specific terms and are subject to retirement by rotation in accordance with the Company's articles of association.

No Director proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The board of Directors has the general power of determining the Directors' remuneration, subject to the authorisation of the Shareholders given at the annual general meeting of the Company each year. The remuneration of the executive Directors is subject to the review of the Company's remuneration committee. As for the non-executive Directors, their remuneration is determined by the board of Directors, upon recommendation of the Company's remuneration committee, with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the those disclosed in note 38 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2007, the interests and short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	**The Company/ name of associated corporation**	**Capacity**	**Number and class of securities/percentage in equity interest** *(Note 1)*	**Approximate percentage of interest**
Mr. Zhang Peter Y.	The Company	Interest of controlled corporation	308,758,783 Shares (L) *(Note 2)*	35.06%
Mr. Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("**GHXM**")	Interest of controlled corporation	5% (L) *(Note 3)*	5%

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares or, as the case may be, the equity interest of the Company or its associated corporations.

2. These 308,758,783 Shares were held by Bull's-Eye Limited ("**BEL**"), more than one-third of the issued share capital of which is beneficially owned by Mr. Zhang Peter Y. By virtue of the provisions of Division 7 and 8 of Part XV of the SF Ordinance, Mr. Zhang Peter Y. is deemed to be interested in all the Shares held by BEL.

3. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited ("**GHKA**"), which is beneficially owned as to 95% by Mr. Deng Jie and as to the remaining 5% by Mr. Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Mr. Deng Jie is deemed to be interested in the equity interests in GHXM held by GHKA.

Save as disclosed above, as at 30 June 2007, none of the directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interests and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Year, options granted to Mr. Zhang Peter Y. and Mr. Xu Peng, each being an executive director of the Company, carrying rights to subscribe for a total of 1,200,000 Shares lapsed. No options granted to the Directors under the Scheme (as defined below) remained outstanding as at 30 June 2007.

SHARE OPTION SCHEME

The Company operates a share option scheme ("**Scheme**"), which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Eligible participants of the Scheme include the following:

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

(ii) any non-executive director (including independent non-executive directors) of the Group or any Invested Entity;

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

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

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

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

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

(viii) any company wholly-owned by one or more of the eligible participants referred to in (i) to (vii) above.

As at the date of this report, the total number of shares of the Company available for issue under the Scheme and any other share option scheme of the Group is 66,616,200, representing 7.56% and 10%, respectively, of the issued share capital of the Company as at the date of this report and 29 November 2004, being the date of the 2004 Annual General Meeting of the Company at which an ordinary resolution was passed by the shareholders approving the renewal of the 10% mandate under the Scheme.

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive director of the Company as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in 12-month period up to and including the date of grant, are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Scheme.

The subscription price for Shares under the Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of:

(i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and

(iii) the nominal value of the shares of the Company.

Movement of the options to subscribe for Shares granted under the Scheme during the Year was as follows:

		Number of underlying Shares						
Class of grantee	**Date of grant**	**Outstanding as at 1 July 2006**	**Granted during the Year**	**Exercised during the Year**	**Lapsed during the Year**	**Outstanding as at 30 June 2007**	**Exercise price per Share** *(HK$)*	**Exercise period**
Directors	1/09/2004	1,200,000	–	–	(1,200,000)	–	0.64	01/09/2004 to 31/08/2006
Other employees *(Note 1)*	1/09/2004	2,400,000	–	–	(2,400,000)	–	0.64	01/09/2004 to 31/08/2006
Others	1/09/2004	1,000,000	–	(1,000,000) *(Note 2)*	–	–	0.64	01/09/2004 to 31/08/2006
		4,600,000	–	(1,000,000)	(3,600,000)	–		

Notes:

1. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

2. The weighted average closing price of the Shares on 7 August 2006, being the trading day immediately preceding the date of exercise of the options, was HK$1.43 per Share.

Subject to the earlier termination of the Scheme in accordance with the rules governing the Scheme, the Scheme will expire on 25 November 2012.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

After having made reasonable enquiry, the Directors are aware that as at 30 June 2007, the following persons or entities, other than a director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	**Number of Shares** *(Note 1)*	**Nature of interest**	**Approximate percentage of interest**
BEL *(Note 2)*	308,758,783 (L)	Beneficial owner	35.06%
Liu Yu (Note 3)	308,758,783 (L)	Interest of spouse	35.06%
Haw Par Pharmaceutical Holdings Pte. Ltd *(Note 4)*	183,532,400 (L)	Beneficial owner	20.84%
Haw Par Corporation Limited *(Note 4)*	183,532,400 (L)	Interest of controlled corporation	20.84%
Jayhawk China Fund (Cayman) Ltd *(Note 5)*	78,958,000 (L)	Investment manager	8.97%
McCarthy Kent C. *(Note 5)*	78,958,000 (L)	Interest of controlled corporation	8.97%
Chartered Asset Management Pte. Ltd.	70,692,000 (L)	Investment manager	8.03%
Atlantis Investment Management Ltd.	54,000,000 (L)	Investment manager	6.13%
CAM-GTF Limited	44,208,000 (L)	Beneficial owner	5.02%

Note:

1. The letter "L" represents the person's or the entity's interests in Shares.

2. More than one-third of the issued share capital of BEL is beneficially owned by Mr. Zhang Peter Y. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Mr. Zhang Peter Y., an executive Director, is deemed to be interested in all the Shares held by BEL. Mr. Zhang Peter Y. is a director of BEL.

3. Ms. Liu Yu is the wife of Mr. Zhang Peter Y., an executive Director, who is deemed to be interested in the Shares and underlying Shares in which Mr. Zhang Peter Y. is interested under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance.

4. Haw Par Pharmaceutical Holdings Pte. Ltd. is a wholly-owned subsidiary of Haw Par Corporation Limited, a company incorporated in Singapore whose shares are listed on the Singapore Exchange Securities Trading Limited. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Haw Par Corporation Limited is deemed to be interested in all Shares in which Haw Par Pharmaceutical Holdings Pte. Ltd. is interested.

5. Jayhawk China Fund (Cayman) Ltd. is wholly-owned by McCarthy Kent C.. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, McCarthy Kent C. is deemed to be interested in all Shares in which Jayhawk China Fund (Cayman) Ltd. is interested.

Save as disclosed above, as at 30 June 2007, no person, or entity other than a director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance.

CONNECTED TRANSACTIONS

The related party transactions disclosed in note 38 to the financial statements constituted exempt connected transactions or, as the case may be, exempt continuing connected transactions under Chapter 14A of the Listing Rules.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholders of the Company:

a. On 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Kong Kong (" **Loan Agreement** "), which contained specific performance obligations on Mr. Zhang Peter Y. and Mr. Xu Peng.

   The Loan Agreement was for a term loan facility of up to HK$100,000,000, the final maturity date of which should be the date falling 36 months from the date of the Loan Agreement (i.e. 15 September 2007).

   The Loan Agreement provided that so long as there remained any money outstanding under the Loan Agreement: (1) Mr. Zhang should continue to be the chairman and (save and except BEL) the person with the single largest attributable shareholding in the Company; (2) Mr. Xu should continue to be a director of the Company and (save and except BEL) the person with the second largest attributable shareholding in the company; and (3) Mr. Zhang and Mr. Xu should collectively maintain, directly or indirectly, not less than 35% of issued share capital of the Company, free from any encumbrances and should collectively deposit not less than 35% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Loan Agreement. The loan facility, together with all interests accrued on the loan facility, under the Loan Agreement was repaid in full by the Company on 17 July 2006.

b. The Company entered into a new facility agreement ("**Facility Agreement**") with certain financial institutions in Hong Kong and overseas on 30 June 2006. The Facility Agreement contains specific performance obligations on Mr. Zhang Peter Y. and Mr. Deng Jie. The Facility Agreement is for a syndicated loan facility of up to HK$445,000,000 for a term of three years, with an option at the end of the third year to extend the loan for an additional two years.

The Facility Agreement provides that so long as there remains any amount outstanding under the Facility Agreement: (1) Mr. Zhang Peter Y. shall remain to be the Chairman and the single largest shareholder of the Company; (2) Mr. Deng Jie, the Chief Executive Officer of the Company, shall remain to be a director; (3) Mr. Zhang and Mr. Deng shall together, directly or indirectly, maintain not less than 30% of the issued voting share capital of the Company; and (4) Mr. Zhang should deposit not less than 30% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

A breach of any of the above specific performance obligations would constitute a default under the Facility Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Facility Agreement.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by public as at the date of this report.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by this Annual Report. Please refer to the Corporate Governance Report on pages 34 to 39 of this Annual Report.

AUDIT COMMITTEE

The board of Directors established the audit committee (the "**Committee**") in accordance with the requirements of the Code. The primary duties of the committee include reviewing and providing supervision over the financial reporting procedure process and internal controls of the Group. The existing members of the Committee are Mr. Tarn Sien Hao, a non-executive Director, and Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew, the three independent non-executive Directors. The Group's financial statements for the Year have been reviewed by the Committee, which is of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

AUDITORS

Ernst & Young will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Zhang Peter Y.
Chairman

Hong Kong
18 October 2007

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board ("**Board**") of directors (each a "**Director**") of the Company is committed to maintaining high standards of corporate governance and endeavours in following the code provisions ("**Code Provisions**") of the "Code on Corporate Governance Practices" ("**Code**") as set out in Appendix 14 to the Rules ("**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

The Board has set up the remuneration committee of the Board ("**Remuneration Committee**") with written terms of reference prepared in accordance with the Code Provisions and has adopted a written set of terms of reference of the audit committee of the Board ("**Audit Committee**") which were prepared in accordance with the Code Provisions. The Board has also set up an internal audit team to monitor the effectiveness of the internal control of the Group. Throughout the year, the Company has complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules ("**Model Code**"). Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors and senior management throughout the year ended 30 June 2007.

BOARD OF DIRECTORS

The Board is currently composed of five executive Directors comprising Mr. Zhang Peter Y. as the chairman, Mr. Deng Jie as the chief executive officer, Mr. Long Xian Feng, Mr. Wu Xian Peng and Mr. Bian Shu Guang; two non-executive Directors comprising Mr. Wee Ee Lim (Mr. Chng Hwee Hong as alternate) and Mr. Tarn Sien Hao; and three independent non-executive Directors comprising Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew. The biographical details of the Directors are set out on pages 17 to 19 of the annual report of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company. Each non-executive Director is appointed for a term of one year or three years and each independent non-executive Director is appointed for a term of two years.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Each of the members of the Board has full access to relevant information at the meetings. During the year, the Board has convened four regular meetings and conducted the following activities:

(1) approved the interim and final results, interim and annual report, and matters to be considered at annual general meeting;

(2) discussed future business plans of the Group;

(3) approved the financial results and financial reports of the Company;

(4) approved the disposal of a PRC subsidiary of the Company.

Apart from the regular board meetings, the Board met on other occasions when a Board level decision on a particular matter was required.

Details of the Directors' attendance records at the regular board meetings during the year are as follows:

	Attendance
Executive Directors	
Mr. Zhang Peter Y. *(Chairman)*	4/4
Mr. Xu Peng*	0/1
Mr. Deng Jie *(Chief Executive Officer)*	4/4
Mr. Long Xian Feng	4/4
Mr. Wu Xian Peng	1/4
Mr. Bian Shu Guang*	3/3
Non-executive Directors	
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*	3/4
Mr. Tarn Sien Hao	4/4
Independent non-executive Directors	
Professor Kung Hsiang Fu	4/4
Professor Tso Wung Wai	3/4
Mr. Hon Yiu Ming, Matthew	4/4

* *Mr. Xu Peng retired as an executive director at the annual general meeting of the Company held on 21 December 2006 and Mr. Bian Shu Guang was appointed as an executive Director on 26 January 2007. By reason of the above changes, Mr. Xu Peng and Mr. Bian Shu Guang did not participate in all regular board meetings held during the year.*

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The roles of the chairman of the Company and the chief executive officer of the Group are segregated and are not exercised by the same individual.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new Directors will be decided by the Board. They review regularly the need to appoint additional Directors with appropriate professional knowledge and industry experience. The Board will then consider the appointment of the candidates nominated by them as Directors.

During the Year, one Board meeting was held at which, among others, the appointment of Mr. Bian Shu Guang as an executive Director was approved. Details of the Directors' attendance records at such Board meeting are as follows:

	Attendance
Executive Directors	
Mr. Zhang Peter Y.	1/1
Mr. Deng Jie	1/1
Mr. Long Xian Feng	1/1
Mr. Bian Shu Guang *(Note)*	N/A
Mr. Wu Xian Peng	0/1
Non-executive Directors	
Mr. Wee Ee Lim	1/1
Mr. Tarn Sien Hao	1/1
Independent non-executive Directors	
Professor Kung Hsiang Fu	1/1
Professor Tso Wung Wai	1/1
Mr. Hon Yiu Ming, Matthew	1/1

Note:

Mr. Bian Shu Gunag was not yet a Director at the time such Board meeting was held and therefore did not participate in such meeting.

REMUNERATION COMMITTEE

The Remuneration Committee is currently composed of five members, comprising three independent non-executive Directors, namely Professor Kung Hsiang Fu (Chairman), Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew; one executive Director, Mr. Deng Jie and one non-executive Director, Mr. Wee Ee Lim (Mr. Chng Hwee Hong as alternate). It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions.

The Remuneration Committee meets annually to review the remuneration policies and packages for Directors and senior management of the Company. No Director takes part in any discussions about his own remuneration. During the year, it has convened two meetings and conducted the following activities:

(1) reviewed the remuneration packages for all directors of the Company; and

(2) discussed the terms of the service contract and remuneration package of a newly appointed director.

Details of attendance of each member of the Remuneration Committee during the year are as follows:

	Attendance
Independent non-executive Directors	
Professor Kung Hsiang Fu *(Chairman)*	2/2
Professor Tso Wung Wai	2/2
Mr. Hon Yiu Ming, Matthew	2/2
Executive Director	
Mr. Deng Jie	2/2
Non-executive Director	
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*	2/2

Generally, the employees of the Group (including the Directors) are remunerated based on their experience and qualifications, the Group's performance as well as market conditions.

AUDITORS' REMUNERATION

During the year, Ernst & Young, as the external auditors of the Company, have provided audit services to the Group in respect of 2006/2007 financial statements of the Group at the fee of HK$1,980,000 (2006: HK$1,800,000).

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Professor Kung Hsiang Fu (Chairman), Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew and one non-executive Director, Mr. Tarn Sien Hao. The Audit Committee has adopted a written set of terms of reference in accordance with the Code Provisions.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

During the year, the Audit Committee has convened two meetings and conducted the following activities:

(1) reviewed interim and annual results of the Company;

(2) reviewed the internal controls and financial matters of the Group in pursuance of the terms of reference;

(3) reviewed the audit plans and findings of the external auditors of the Company; and

(4) made recommendation to the Board on the reappointment of the external auditors.

Details of attendance of each member of the Audit Committee during the year are as follows:

	Attendance
Independent non-executive Directors	
Professor Kung Hsiang Fu *(Chairman)*	2/2
Professor Tso Wung Wai	1/2
Mr. Hon Yiu Ming, Matthew	2/2
Non-executive Director	
Mr. Tarn Sien Hao	2/2

There was no disagreement between the Board's and the Audit Committee's views on the selection and appointment of the external auditors.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 30 June 2007, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Auditors' Report to the shareholders of the Company on pages 40 to 41 of the annual report of the Company.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control. During the year, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee and the internal audit team of the Company. There was no significant incidence of failure in connection with the financial, operational and compliance control during the year.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the shareholders of Hua Han Bio-Pharmaceutical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Hua Han Bio-Pharmaceutical Holdings Limited set out on pages 42 to 105, which comprise the consolidated and company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the 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 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 October 2007

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**743,856**	627,925
Cost of sales		**(409,757)**	(353,456)
Gross profit		**334,099**	274,469
Other income and gains	5	**24,704**	7,974
Selling and distribution costs		**(97,099)**	(73,786)
Administrative expenses		**(52,667)**	(42,835)
Finance costs	6	**(34,715)**	(11,300)
PROFIT BEFORE TAX	7	**174,322**	154,522
Tax	9	**(36,169)**	(27,135)
PROFIT FOR THE YEAR		**138,153**	127,387
Attributable to:			
Equity holders of the Company	10	**130,626**	123,146
Minority interests		**7,527**	4,241
		138,153	127,387
DIVIDEND			
Proposed final	11	**17,615**	17,615
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
– Basic		**HK14.8 cents**	HK14.1 cents
– Diluted		**HK14.8 cents**	HK14.0 cents

CONSOLIDATED BALANCE SHEET

30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**137,863**	128,301
Prepaid land lease payments	14	**70,099**	100,502
Intangible assets	15	**90,161**	13,760
Deferred expenditure	16	**50,596**	–
Goodwill	17	**18,865**	18,865
Investment in a jointly-controlled entity	19	**–**	–
Investment in an associate	20	**–**	100
Available-for-sale equity investment	21	**–**	12,434
Deposits and prepayments	22	**49,469**	19,625
Total non-current assets		**417,053**	293,587
CURRENT ASSETS			
Inventories	23	**15,464**	25,064
Accounts and bills receivables	24	**228,701**	266,027
Prepayments, deposits and other receivables	25	**119,101**	65,753
Pledged deposits	26	**–**	7,517
Cash and cash equivalents	26	**871,454**	523,864
Total current assets		**1,234,720**	888,225
CURRENT LIABILITIES			
Accounts and bills payables	27	**19,628**	64,468
Tax payable		**15,199**	8,553
Accrued liabilities and other payables		**40,604**	46,186
Bank loans	28	**61,586**	119,211
Convertible bonds	29	–	390
Total current liabilities		**137,017**	238,808
NET CURRENT ASSETS		**1,097,703**	649,417
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,514,756**	943,004
NON-CURRENT LIABILITIES			
Bank loans	28	**436,383**	38,352
Deferred tax liabilities	30	**15,462**	26,631
Total non-current liabilities		**451,845**	64,983
Net assets		**1,062,911**	878,021

CONSOLIDATED BALANCE SHEET (continued)

30 June 2007

	Notes	**2007** *HK$'000*	2006 *HK$'000*
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*31*	**88,073**	87,973
Reserves	*33(a)*	**909,188**	735,861
Proposed final dividend	*11*	**17,615**	17,615
		1,014,876	841,449
Minority interests		**48,035**	36,572
Total equity		**1,062,911**	878,021

Zhang Peter Y.
Director

Deng Jie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2007

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Asset revaluation reserve	Statutory reserve fund	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005	87,073	242,873	2,751	35,216	–	317,367	17,415	702,695	31,064	733,759
Exchange realignment	–	–	–	–	27,310	–	–	27,310	1,243	28,553
Deficit on revaluation	–	–	(16)	–	–	–	–	(16)	–	(16)
Effect of deferred tax	–	–	(7)	–	–	–	–	(7)	–	(7)
Revaluation surplus attributable to minority interests	–	–	(24)	–	–	–	–	(24)	24	–
Total income and expense for the year recognised directly in equity	–	–	(47)	–	27,310	–	–	27,263	1,267	28,530
Profit for the year	–	–	–	–	–	123,146	–	123,146	4,241	127,387
Total income and expense for the year	–	–	(47)	–	27,310	123,146	–	150,409	5,508	155,917
Issue of shares upon exercise of share options *(note 31(a))*	900	4,860	–	–	–	–	–	5,760	–	5,760
Transfer to statutory reserve fund *(note 33(a))*	–	–	–	12,541	–	(12,541)	–	–	–	–
Final 2005 dividend declared	–	–	–	–	–	–	(17,415)	(17,415)	–	(17,415)
Proposed final dividend *(note 11)*	–	–	–	–	–	(17,615)	17,615	–	–	–
At 30 June 2006	87,973	247,733	2,704	47,757	27,310	410,357	17,615	841,449	36,572	878,021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 30 June 2007

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Asset revaluation reserve	Statutory reserve fund	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2006	87,973	247,733	2,704	47,757	27,310	410,357	17,615	841,449	36,572	878,021
Exchange realignment	–	–	–	–	58,776	–	–	58,776	3,697	62,473
Surplus on revaluation	–	–	3,745	–	–	–	–	3,745	–	3,745
Effect of deferred tax *(note 30)*	–	–	59	–	–	–	–	59	–	59
Release on disposal of subsidiaries *(note 34)*	–	–	–	–	(2,565)	–	–	(2,565)	–	(2,565)
Release on disposal of property, plant and equipment	–	–	(173)	–	–	173	–	–	–	–
Revaluation surplus attributable to minority interests	–	–	(239)	–	–	–	–	(239)	239	–
Total income and expense for the year recognised directly in equity	–	–	3,392	–	56,211	173	–	59,776	3,936	63,712
Profit for the year	–	–	–	–	–	130,626	–	130,626	7,527	138,153
Total income and expense for the year	–	–	3,392	–	56,211	130,799	–	190,402	11,463	201,865
Issue of shares upon exercise of share options *(note 31(b))*	100	540	–	–	–	–	–	640	–	640
Transfer to statutory reserve fund *(note 33(a))*	–	–	–	15,850	–	(15,850)	–	–	–	–
Final 2006 dividend declared *(note 11)*	–	–	–	–	–	–	(17,615)	(17,615)	–	(17,615)
Proposed final dividend *(note 11)*	–	–	–	–	–	(17,615)	17,615	–	–	–
At 30 June 2007	88,073	248,273	6,096	63,607	83,521	507,691	17,615	1,014,876	48,035	1,062,911

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**174,322**	154,522
Adjustments for:			
Depreciation	7	**9,468**	8,859
Amortisation of prepaid land lease payments	7	**1,927**	2,261
Amortisation of intangible assets	7	**6,093**	4,050
(Gain)/loss on disposals/write-offs of items of property, plant and equipment	5, 7	**(130)**	159
Deficit on revaluation of leasehold buildings	7	**–**	114
Impairment of accounts and bills receivables	7	**–**	451
Interest income	5	**(14,115)**	(3,441)
Finance costs	6	**34,715**	11,300
Gains on disposal of subsidiaries	5	**(2,969)**	–
Gain on disposal of an available-for-sale equity investment	5	**(20)**	–
Impairment of an investment in an associate	7	**100**	–
Exchange realignment		**26,315**	–
		235,706	178,275
Increase in inventories		**(2,763)**	(2,869)
Increase in accounts and bills receivables		**(37,209)**	(20,596)
Increase in prepayments, deposits and other receivables		**(37,347)**	(7,736)
Increase in accounts and bills payables		**22,764**	5,867
(Decrease)/increase in accrued liabilities and other payables		**(746)**	565
Cash generated from operations		**180,405**	153,506
Interest received		**14,115**	3,441
Interest paid		**(34,715)**	(11,300)
Overseas taxes paid		**(31,759)**	(27,515)
Net cash inflow from operating activities		**128,046**	118,132
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(29,665)**	(3,853)
Proceeds from disposal of items of property, plant and equipment		**12,623**	–
Acquisition of intangible assets	15	**(81,380)**	(3,883)
Increase in deferred expenditure		**(50,596)**	–
Net cash inflow from disposal of subsidiaries	34	**9,246**	–
Proceeds from disposal of an available-for-sale equity investment		**10,815**	–
Increase in non-current deposits and prepayments		**(4,534)**	(15,891)
Proceeds from disposal of prepaid land lease payments		**7,918**	–
Increase in prepaid land lease payments	14	**(10,625)**	–
Increase in pledged deposits		**(1,291)**	(7,517)
Increase in an amount due from a former subsidiary		**(9,751)**	–
Increase in time deposits with original maturity over three months when acquired		**(409,520)**	–
Net cash outflow from investing activities		**(556,760)**	(31,144)

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 30 June 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	31	**640**	5,760
New bank loans, net		**457,712**	18,447
Repayment of bank loans		**(97,953)**	(57,930)
Repayment of convertible bonds		**(390)**	–
Dividend paid		**(17,615)**	(17,415)
Net cash inflow/(outflow) from financing activities		**342,394**	(51,138)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(86,320)**	35,850
Cash and cash equivalents at beginning of year		**523,864**	474,000
Exchange realignment		**24,390**	14,014
CASH AND CASH EQUIVALENTS AT END OF YEAR		**461,934**	523,864
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**385,843**	523,864
Time deposits with original maturity within three months when acquired	26	**76,091**	–
		461,934	523,864

BALANCE SHEET

30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**133,703**	133,700
CURRENT ASSETS			
Due from subsidiaries	18	**700,620**	404,951
Prepayments, deposits and other receivables		**274**	119
Cash and cash equivalents	26	**69,894**	2,707
Total current assets		**770,788**	407,777
CURRENT LIABILITIES			
Accrued liabilities and other payables		**4,203**	4,346
Bank loans	28	**–**	57,250
Convertible bonds	29	**–**	390
Total current liabilities		**4,203**	61,986
NET CURRENT ASSETS		**766,585**	345,791
TOTAL ASSETS LESS CURRENT LIABILITIES		**900,288**	479,491
NON-CURRENT LIABILITY			
Bank loans	28	**434,146**	14,250
Total non-current liability		**434,146**	14,250
Net assets		**466,142**	465,241
EQUITY			
Issued capital	31	**88,073**	87,973
Reserves	33(b)	**360,454**	359,653
Proposed final dividend	11	**17,615**	17,615
Total equity		**466,142**	465,241

Zhang Peter Y.
Director

Deng Jie
Director

1. CORPORATE INFORMATION

Hua Han Bio-Pharmaceutical Holdings Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 704, 7th Floor, Aon China Building, 29 Queen's Road Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of gynecological pharmaceutical products and feminine medical healthcare products
- trading of pharmaceutical products, healthcare products, and medical appliances and equipment
- research and development of pharmaceutical products

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which also include Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings which have been measured at fair value. These financial statements are presented in Hong Kong dollar ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements and applicable to its operations:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

The adoption of the above new and revised HKFRSs have had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKAS 23 (Revised)	Borrowing Costs (Revised)
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HKAS 1 Amendment shall be applied for accounting periods beginning on or after 1 January 2007. This revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 23 (Revised) shall be applied for accounting periods beginning on or after 1 January 2009 and will supersede HKAS 23 issued in 2004. The standard requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

HKFRS 7 shall be applied for accounting periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for accounting periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 10 shall be applied for the accounting periods beginning on or after 1 November 2006; HK(IFRIC)-Int 11 shall be applied for the accounting periods beginning on or after 1 March 2007; HK(IFRIC)-Int 12 and HK(IFRIC)-Int 14 shall be applied for the accounting periods beginning on or after 1 January 2008; and HK(IFRIC)-Int 13 shall be applied for the accounting periods beginning or after on 1 July 2008.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs should have no material impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39 Financial Instruments: Recognition and Measurements, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and an associate represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or before 31 December 2004

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of a period up to a maximum of 20 years. In the case of an associate, any unamortised goodwill is included in the carrying amount thereof, rather than as a separate identified asset on the consolidated balance sheet.

On disposal of subsidiaries and an associate, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of an associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(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 benefits of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	Over the lease terms or 2% to 10%, whichever is shorter
Leasehold improvements	Over the lease terms or 20% to 25%, whichever is shorter
Plant and machinery	5% to 20%
Furniture, fixtures, equipment and motor vehicles	12.5% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and structures in progress, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Operating right

Operating right represented the exclusive right to sell a pharmaceutical product in Mainland China, and is stated at cost less any impairment losses and is amortised on the straight-line basis over its term of the right of 10 years.

Technical knowhow

The cost of acquiring the rights to technical knowhow for the development and production of new pharmaceutical products is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated economic life of the knowhow of a maximum of five years, commencing from the date when the products are ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Project development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products of a period up to a maximum of eight years, commencing from the date when the products are ready for use.

Deferred expenditure

Deferred expenditure represented cost of acquiring a knowhow that is in the process of registering with relevant regulatory bodies and is stated at cost less impairment losses. Deferred expenditure will be reclassified to the appropriate category of intangible assets when the registration has been completed.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are not classified as financial assets at fair value through profit or loss or loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts and bills receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans)

Financial liabilities including accounts and bills payables and bank loans are initially stated at fair value less directly attributable transaction costs and are 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.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowances against obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) rental income, on a time proportion basis over the lease terms;

(c) services income, when the services have been provided; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 July 2005 and to those granted on or after 1 July 2005.

Staff retirement schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions for its employees who are registered as permanent residents in Mainland China. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the board of directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

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, is discussed below.

a) Estimated impairment of intangible assets and deferred expenditure

The Group performs annual assessments on whether there have been impairment of intangible assets and deferred expenditure. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the businesses, pre-tax discount rates and other assumptions underlying the value-in-use calculations.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

b) Estimation regarding provision for deferred tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax law of the People's Republic of China (the "New CIT Law"), which will be effective on 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to foreign-invested enterprises from 1 January 2008 will change to 25%. This change in the corporate income tax rate will directly increase the effective tax rates of the Group's subsidiaries in Mainland China prospectively from 2008. According to HKAS 12 Income Taxes, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The Group takes into account the current tax rates of its subsidiaries in Mainland China and the transitional rulings of the New CIT Law in order to estimate the likely tax rates applicable for these subsidiaries from 1 January 2008. The impact on the results and financial position of the Group for the year ended 30 June 2007 has been disclosed in notes 9 and 30 to the financial statements.

4. SEGMENT INFORMATION

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the manufacturing segment engages in the manufacture and sale of Chinese and western pharmaceutical products, naturally-sourced anti-tumour medicine and medicinal healthcare products in Mainland China; and

(b) the trading segment engages in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment.

4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Manufacturing		Trading		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**566,698**	465,237	**177,158**	162,688	**743,856**	627,925
Other income	**5,059**	1,848	**671**	281	**5,730**	2,129
	571,757	467,085	**177,829**	162,969	**749,586**	630,054
Segment results	**197,861**	170,910	**2,322**	821	**200,183**	171,731
Interest income and unallocated income and gains					**18,974**	5,845
Unallocated expenses					**(10,120)**	(11,754)
Finance costs					**(34,715)**	(11,300)
Profit before tax					**174,322**	154,522
Tax					**(36,169)**	(27,135)
Profit for the year					**138,153**	127,387

4. SEGMENT INFORMATION (continued)

Business segments (continued)

	Manufacturing		Trading		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,545,384**	1,009,176	**20,476**	130,272	**1,565,860**	1,139,448
Investment in an associate					**–**	100
Investment in a jointly-controlled entity					**–**	–
Unallocated assets					**85,913**	42,264
Total assets					**1,651,773**	1,181,812
Segment liabilities	**53,398**	50,820	**–**	53,726	**53,398**	104,546
Unallocated liabilities					**535,464**	199,245
Total liabilities					**588,862**	303,791
Other segment information:						
Capital expenditure	**151,412**	11,336	**19,952**	136	**171,364**	11,472
Unallocated capital expenditure					**902**	13
					172,266	11,485
Depreciation and amortisation	**15,548**	13,074	**1,490**	1,098	**17,038**	14,172
Unallocated depreciation and amortisation					**450**	998
					17,488	15,170
Other non-cash expenses	**–**	4	**–**	606	**–**	610
Unallocated non-cash expenses					**100**	–
					100	610
Surplus/(deficit) on revaluation recognised directly in equity	**3,745**	–	**–**	(16)	**3,745**	(16)
Deficit on revaluation recognised in the income statement	**–**	–	**–**	114	**–**	114

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**743,856**	627,925
Other income and gains		
Interest income	**14,115**	3,441
Government subsidy	**3,801**	1,441
Gross and net rental income	**891**	1,131
Gain on disposal of subsidiaries *(note 34(a))*	**2,969**	–
Gain on disposal of an available-for-sale equity investment	**20**	–
Gain on disposals of items of property, plant and equipment	**130**	–
Others	**2,778**	1,961
	24,704	7,974

6. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans repayable:		
Within five years	**34,597**	10,799
Beyond five years	**118**	491
Convertible bonds	**–**	10
	34,715	11,300

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	**2007** **HK$'000**	2006 HK$'000
Cost of inventories sold		**253,296**	215,174
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**28,501**	24,956
Retirement scheme contributions		**54**	54
		28,555	25,010
Depreciation	*13*	**9,468**	8,859
Amortisation of prepaid land lease payments	*14*	**1,927**	2,261
Amortisation of intangible assets*	*15*	**6,093**	4,050
Auditors' remuneration		**1,980**	1,800
Minimum lease payments under operating leases in respect of land and buildings		**2,282**	1,667
Research and development costs		**4,573**	2,984
Loss on write-offs/disposals of items of property, plant and equipment		**–**	159
Deficit on revaluation of leasehold buildings		**–**	114
Impairment of accounts and bills receivables		**–**	451
Impairment of investment in an associate		**100**	–
Foreign exchange differences, net		**4,020**	815

* *The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated income statement.*

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	**300**	300
Non-executive directors	**200**	200
	500	500
Other emoluments:		
Salaries, allowances and benefits in kind	**504**	600
Performance related bonuses	**2,640**	2,640
Retirement scheme contributions	**16**	12
	3,160	3,252
	3,660	3,752

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	HK$'000	*HK$'000*
Professor Kung Hsiang Fu	**100**	100
Professor Tso Wung Wai	**100**	100
Mr. Hon Yiu Ming, Matthew	**100**	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Directors' remuneration (continued)

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2007					
Executive directors:					
Mr. Zhang Peter Y.	–	144	956	3	1,103
Mr. Xu Peng	–	–	–	–	–
Mr. Deng Jie	–	120	880	10	1,010
Mr. Long Xian Feng	–	96	804	3	903
Mr. Bian Shu Guang	–	48	–	–	48
Mr. Wu Xian Peng	–	96	–	–	96
	–	504	2,640	16	3,160
Non-executive directors:					
Mr. Wee Ee Lim	100	–	–	–	100
Mr. Tarn Sien Hao	100	–	–	–	100
	200	–	–	–	200
	200	504	2,640	16	3,360
30 June 2006					
Executive directors:					
Mr. Zhang Peter Y.	–	144	956	4	1,104
Mr. Xu Peng	–	144	–	–	144
Mr. Deng Jie	–	120	880	4	1,004
Mr. Long Xian Feng	–	96	804	4	904
Mr. Wu Xian Peng	–	96	–	–	96
	–	600	2,640	12	3,252
Non-executive directors:					
Mr. Wee Ee Lim	100	–	–	–	100
Mr. Han Ah Kuan	50	–	–	–	50
Mr. Tarn Sien Hao	50	–	–	–	50
	200	–	–	–	200
	200	600	2,640	12	3,452

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Five highest paid employees

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2006: two), non-director, highest paid employees, each of which fell within the nil to HK$1,000,000 band, are set out as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**823**	504
Retirement scheme contributions	**24**	19
	847	523

During the year, no emoluments were paid by the Group to the directors, or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: Nil).

9. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to an approval received from 貴州省科學技術廳 on 25 December 2000, Guizhou Hanfang Medicine Manufacture Co., Ltd. ("**GHMM**"), a subsidiary of the Company, was classified as one of the approved "High and New Technology Enterprises" in Mainland China. Accordingly, GHMM is entitled to a preferential Mainland China Corporate Income Tax rate of 15% effective from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau during 2003, Guiyang De Chang Xiang Pharmaceutical Company Limited ("**DCX**"), a subsidiary of the Company, was approved a Mainland China Corporate Income Tax rate of 15% effective from year 2003 to 2010 with respect to the preferential tax policy granted by the local government for the entity established in the western part of Mainland China.

9. TAX (continued)

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current – Mainland China	**(38,772)**	(27,135)
Deferred tax credited to the income statement *(note 30)*	**2,603**	–
Total tax charge for the Year	**(36,169)**	(27,135)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective rate is as follows:

Group

	Hong Kong	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
2007			
Profit/(loss) before tax	**(3,759)**	**178,081**	**174,322**
Tax at the statutory tax rates	**658***	**(58,767)****	**(58,109)**
Lower tax rate for specific provinces or local authority	**–**	**28,666**	**28,666**
Expenses not deductible for tax	**(47)**	**(8,537)**	**(8,584)**
Effect of changes in tax rates	**–**	**2,603**	**2,603**
Estimated tax losses not recognised	**(611)**	**(134)**	**(745)**
Tax charge at the Group's effective rate	**–**	**(36,169)**	**(36,169)**
2006			
Profit/(loss) before tax	(10,020)	164,542	154,522
Tax at the statutory tax rates	1,754*	(54,299)**	(52,545)
Lower tax rate for specific provinces or local authority	–	28,460	28,460
Expenses not deductible for tax	(1,103)	(813)	(1,916)
Estimated tax losses not recognised	(651)	(483)	(1,134)
Tax charge at the Group's effective rate	–	(27,135)	(27,135)

9. TAX (continued)

* The standard Hong Kong profits tax rate is 17.5% for the year ended 30 June 2007 (2006: 17.5%).

** The standard Mainland China Corporate Income Tax rate is 33% (2006: 33%).

There were no profits tax attributable to the jointly-controlled entity and the associate of the Group as the jointly-controlled entity and the associate did not generate any assessable profits during the year (2006: Nil).

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the New CIT Law was approved and will be effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the Group can only estimate the likely impact of the New CIT Law, as detailed in notes 3 and 30 to the financial statements.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to equity holders of the Company for the year ended 30 June 2007 dealt with in the financial statements of the Company, was HK$17,876,000 (2006: HK$30,559,000) *(note 33(b))*.

11. DIVIDEND

	2007	2006
	HK$'000	*HK$'000*
Proposed final dividend – HK2 cents (2006: HK2 cents per ordinary share)	**17,615**	17,615

The amount of the proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$130,626,000 (2006: HK$123,146,000) and the weighted average of 880,630,290 (2006: 872,723,364) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$130,626,000 (2006: adjusted profit of HK$123,156,000) and on 881,169,899 (2006: 877,211,808) ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

A reconciliation of the earnings and the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

	2007 HK$'000	2006 HK$'000
Earnings		
Profit attributable to equity holders of the Company used in the basic earnings per share calculation	**130,626**	123,146
Effects of dilutive convertible bonds	**–**	10
Adjusted profit attributable to equity holders of the Company used in the diluted earnings per share calculation	**130,626**	123,156

Shares

	Number of shares 2007	 2006
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**880,630,290**	872,723,364
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year *(note 32)*	**523,302**	3,916,034
Assumed issued on deemed conversion of all convertible bonds outstanding during the year *(note 29)*	**16,307**	572,410
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**881,169,899**	877,211,808

* As further explained in note 29 to the financial statements, the convertible bonds are convertible at a conversion price to be calculated in accordance with a pre-determined formula determined by the bondholder. The calculation of the weighted average number of ordinary shares in respect of the deemed conversion of all convertible bonds was assumed that all the convertible bonds were converted at the lowest possible conversion price during the year.

** The Subscription Rights, as further detailed in note 29 to the financial statements, outstanding during the current and last years had an anti-dilutive effect on the basic earnings per share for the current and last years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
30 June 2007						
Cost or valuation:						
1 July 2006	75,963	4,817	54,365	15,564	509	151,218
Additions	4,969	83	820	2,138	21,655	29,665
Transfers	1,536	–	–	–	(1,536)	–
Disposals	(4,213)	(1,689)	(7,075)	(462)	–	(13,439)
Disposal of subsidiaries	(8,647)	(697)	–	(1,728)	–	(11,072)
Surplus on revaluation	509	–	–	–	–	509
Exchange realignment	4,154	597	2,897	996	567	9,211
At 30 June 2007	74,271	3,111	51,007	16,508	21,195	166,092
Accumulated depreciation:						
At 1 July 2006	–	1,876	12,554	8,487	–	22,917
Provided during the year	3,572	225	3,786	1,885	–	9,468
Write-back on disposals	–	(673)	(48)	(225)	–	(946)
Disposal of subsidiaries	(428)	(427)	–	(1,146)	–	(2,001)
Write-back upon revaluation	(3,236)	–	–	–	–	(3,236)
Exchange realignment	92	485	837	613	–	2,027
At 30 June 2007	–	1,486	17,129	9,614	–	28,229
Net carrying amount:						
At 30 June 2007	74,271	1,625	33,878	6,894	21,195	137,863
At 30 June 2006	75,963	2,941	41,811	7,077	509	128,301
Analysis of cost or valuation:						
At cost	–	3,111	51,007	16,508	21,195	91,821
At 30 June 2007 valuation	74,271	–	–	–	–	74,271
	74,271	3,111	51,007	16,508	21,195	166,092

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2006						
Cost or valuation:						
At 1 July 2005	75,643	4,794	41,724	14,890	4,215	141,266
Additions	124	–	494	326	6,658	7,602
Transfers	–	–	10,528	–	(10,528)	–
Write-offs	–	(143)	(11)	(284)	–	(438)
Deficit on revaluation	(2,742)	–	–	–	–	(2,742)
Exchange realignment	2,938	166	1,630	632	164	5,530
At 30 June 2006	75,963	4,817	54,365	15,564	509	151,218
Accumulated depreciation:						
At 1 July 2005	–	1,253	8,592	6,423	–	16,268
Provided during the year	2,612	595	3,625	2,027	–	8,859
Write-offs	–	–	(7)	(272)	–	(279)
Write-back upon revaluation	(2,612)	–	–	–	–	(2,612)
Exchange realignment	–	28	344	309	–	681
At 30 June 2006	–	1,876	12,554	8,487	–	22,917
Net carrying amount:						
At 30 June 2006	75,963	2,941	41,811	7,077	509	128,301
At 30 June 2005	75,643	3,541	33,132	8,467	4,215	124,998
Analysis of cost or valuation:						
At cost	–	4,817	54,365	15,564	509	75,255
At 30 June 2006 valuation	75,963	–	–	–	–	75,963
	75,963	4,817	54,365	15,564	509	151,218

13. PROPERTY, PLANT AND EQUIPMENT (continued)

All the Group's buildings are located outside Hong Kong and are held under medium term leases.

The buildings situated outside Hong Kong for office and certain production premises were revalued by DTZ Debenham Tie Leung Limited ("**DTZ**"), a firm of independent professionally qualified valuers, on the open market value direct comparison basis on 30 June 2007, at HK$69,438,000. The Group's staff quarter was stated at cost as the directors considered that the carrying amount of HK$4,833,000 approximate to its fair value at the balance sheet date. In the current year, revaluation surplus of HK$3,745,000 has been credited to the asset revaluation reserve.

Had the Group's buildings been carried at historical cost less accumulated depreciation, their net carrying amount would have been approximately HK$65,948,000.

Up to the date of these financial statements, the Group is still in the process of obtaining the building ownership certificates of certain of the Group's buildings in Mainland China with an aggregate net carrying amount of HK$39,509,000 at 30 June 2007.

At 30 June 2007, certain of the Group's buildings, and plant and machinery with net carrying amounts of approximately HK$16,374,000 (2006: HK$26,682,000) and HK$21,174,000 (2006: HK$21,715,000), respectively, were pledged to secure certain banking facilities granted to the Group *(note 28)*.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at beginning of year	**102,763**	101,099
Addition	**10,625**	–
Amortisation recognised during the year	**(1,927)**	(2,261)
Disposal of subsidiaries *(note 34(a))*	**(36,459)**	–
Disposal	**(7,918)**	–
Exchange realignment	**4,665**	3,925
Carrying amount at 30 June	**71,749**	102,763
Current portion included in prepayments, deposits and other receivables	**(1,650)**	(2,261)
Non-current portion	**70,099**	100,502

The prepaid land lease payments of the Group are located outside Hong Kong and are held under medium term leases.

As at 30 June 2007, certain of the Group's prepaid land lease payments with a net carrying amount of HK$1,278,000 (2006: HK$45,904,000) were pledged to secure banking facilities granted to the Group *(note 28)*.

15. INTANGIBLE ASSETS

Group

	Operating right HK$'000	Technical knowhow HK$'000	Deferred development costs HK$'000	Total HK$'000
30 June 2007				
Cost:				
At 1 July 2006	–	17,911	5,894	23,805
Additions	19,952	61,428*	–	81,380
Exchange realignment	524	976	321	1,821
At 30 June 2007	20,476	80,315	6,215	107,006
Accumulated amortisation:				
At 1 July 2006	–	5,435	4,610	10,045
Provided during the year	–	5,457	636	6,093
Exchange realignment	–	439	268	707
At 30 June 2007	–	11,331	5,514	16,845
Net carrying amount:				
At 30 June 2007	20,476	68,984	701	90,161
At 30 June 2006	–	12,476	1,284	13,760
30 June 2006				
Cost:				
At 1 July 2005	–	13,504	5,674	19,178
Additions	–	3,883	–	3,883
Exchange realignment	–	524	220	744
At 30 June 2006	–	17,911	5,894	23,805
Accumulated amortisation:				
At 1 July 2005	–	1,982	3,790	5,772
Provided during the year	–	3,377	673	4,050
Exchange realignment	–	76	147	223
At 30 June 2006	–	5,435	4,610	10,045
Net carrying amount:				
At 30 June 2006	–	12,476	1,284	13,760
At 1 July 2005	–	11,522	1,884	13,406

* The amount represented costs incurred to acquire a technical knowhow to produce biochips. Up to the date of these financial statements, the Group is in the process of registering the related patent in the Group's name with the relevant government authority in Mainland China.

16. DEFERRED EXPENDITURE

Balance represents the costs of acquiring technical knowhow in relation to the production of a category one new medicine in Mainland China. Up to the date of these financial statements, the Group is in the process of applying for registration of the technical knowhow in the Group's name with the relevant governmental authorities in Mainland China.

17. GOODWILL

Group

	HK$'000
At 1 July 2005, 30 June 2006 and 30 June 2007:	
Cost	18,865
Accumulated impairment	–
Net carrying amount	18,865

HK$16.0 million (the "Goodwill") of the Group's goodwill of HK$18.9 million was allocated to a cash-generating unit engaged in the manufacture of gynecological pharmaceutical products and feminine medical healthcare products, which is included in the "Manufacturing" segment of the Group. The recoverable amount of the cash-generating unit has been determined from the value in use, which is calculated with reference to cash flow projections based on a five-years period financial budget approved by senior management. The key assumptions for the cash flow projections are the budgeted gross margin which is the average gross profit margin achieved in the year immediately before the budget years and the discount rate of 6.7%, which is before tax and reflects specific risks relating to the cash generating unit. The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the cash-generating unit to exceed the aggregate recoverable amount. Since the recoverable amount of the cash generating unit is higher than its carrying amount, the directors consider that the carrying value of the Goodwill at the balance sheet date is not impaired.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**133,703**	133,700

18. INVESTMENTS IN SUBSIDIARIES (continued)

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are repayable on demand. The carrying amounts of the balances with subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Intended Features Limited	British Virgin Islands ("BVI")	US$375,875 (2006: US$375,875)	100	–	Investment Holding
GHMM*	PRC/ Mainland China	HK$159,829,420 (2006: HK$151,830,000)	–	100	Manufacture and sale of gynecological pharmaceutical products and feminine medical health care products
貴州漢方息烽藥業有限公司**	PRC/ Mainland China	RMB3,000,000 (2006: RMB3,000,000)	–	95	Property holding
貴州泛特爾生物技術有限公司*,#	PRC/ Mainland China	HK$100,000,000	–	75	Manufacture and sale of biological medicine
廣東群禾藥業有限公司**	PRC/ Mainland China	RMB10,000,000 (2006: RMB10,000,000)	–	70	Trading of medical healthcare products
廣州美即化妝品有限公司* ("Guangzhou Magic") *(Note)*	PRC/ Mainland China	HK$40,000,000 (2006: RMB1,000,000)	–	49	Manufacture and sale of medical healthcare products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
海南洋浦正瀚貿易有限公司**	PRC/ Mainland China	RMB1,000,000 (2006: RMB1,000,000)	–	70	Trading of medical healthcare products
DCX***	PRC/ Mainland China	RMB8,344,800 (2006: RMB8,344,800)	–	93	Manufacture and sale of gynecological pharmaceutical products and feminine medical healthcare products
Magic Holdings Group Limited ("Magic Holdings")	BVI	US$200 (2006: US$200)	–	49	Investment holding

\# Established during the year

* Registered as wholly foreign-owned-enterprises under the laws of PRC

** Registered as domestic enterprises under the laws of PRC

*** Registered as foreign invested enterprises under the laws of PRC

Note: Guangzhou Magic is a wholly-owned subsidiary of Magic Holdings in which the Group indirectly hold 49% equity interest. Pursuant to an undertaking made by an individual shareholder (the "Individual Shareholder") holding 21% equity interest and voting right in Magic Holdings, the Individual Shareholder will vote in accordance with the Group's decisions. Accordingly, the directors consider the Group has control over Magic Holdings. Therefore, Guangzhou Magic is regarded as a subsidiary of the Group.

The statutory financial statements of the subsidiaries listed above are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net assets of an unlisted jointly-controlled entity	**–**	–

Particulars of the jointly-controlled entity are as follows:

Name	**Place of registration and operations**	**Percentage of Ownership interest**	**Percentage of Voting power**	**Percentage of Profit sharing**	**Principal activities**
Guizhou Hanfang Medicine Research Co., Ltd. ("**GHMR**")	PRC/ Mainland China	50	40	50	Research and development of Chinese and western medicine

During the year, the Group did not share any of the losses of GHMR (2006: Nil) as, according to the joint venture agreement, the Group's share of losses of GHMR is limited to its capital contribution to GHMR, which was reached in prior years. The statutory financial statements of GHMR are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

20. INVESTMENT IN AN ASSOCIATE

	Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net assets of an unlisted associate	**–**	100

The goodwill arising from the acquisition of the associate in prior years of HK$500,000 was fully impaired in prior years.

20. INVESTMENT IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

Name	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activity
Tengen Lizhu Biotech Co. Limited ("**TLB**")	Hong Kong	33	Dormant

The shareholding of the Company in TLB is held through a wholly-owned subsidiary of the Company.

The statutory financial statements of TLB were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

21. AVAILABLE-FOR-SALE EQUITY INVESTMENT

	Group	
	2007	2006
	HK$'000	*HK$'000*
Unlisted equity investment outside Hong Kong, at cost	**–**	12,434

During the year, the Group's entire interest in the available-for-sale equity investment was disposed of to an independent third party for a cash consideration of HK$12,454,000, of which HK$10,815,000 was settled before the balance sheet date.

22. DEPOSITS AND PREPAYMENTS

Balance represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Deposits paid in respect of:		
Purchases and construction of property, plant and equipment	**20,867**	14,563
Purchases of technical knowhow	**3,292**	5,062
Prepayments	**25,310**	–
	49,469	19,625

23. INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**8,140**	6,875
Work in progress	**–**	1,165
Finished goods	**7,324**	17,024
	15,464	25,064

24. ACCOUNTS AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of up to 180 days and extended to one year for certain customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivables related to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

An aged analysis of the accounts and bills receivables as at the balance sheet date is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**162,380**	173,425
91 to 180 days	**63,893**	63,055
181 to 365 days	**2,428**	28,610
Over 365 days	–	937
	228,701	266,027

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Prepayments	**55,943**	45,127
Other receivables*	**52,995**	10,991
Amount due from a former subsidiary**	**9,751**	–
Amounts due from directors	**–**	9,247
Deposits	**412**	388
	119,101	65,753

* Included in the other receivables as at 30 June 2007 were HK$38,045,000 and HK$1,639,000 representing the remaining consideration on disposal of subsidiaries and an available-for-sale equity investment, respectively, of which HK$19,043,000 and HK$1,639,000 were settled subsequent to the balance sheet date, respectively.

** The balance bears interest at prevailing bank borrowing rates in Mainland China and was settled subsequent to the balance sheet date.

The carrying amounts of other receivables approximate to their fair values.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**385,843**	531,381	**1,011**	2,707
Time deposits with original maturity:				
Within three months	**76,091**	–	**68,883**	–
Over three months	**409,520**	–	**–**	–
	871,454	531,381	**69,894**	2,707
Less: Deposits pledged for short term banking facilities	**–**	(7,517)	**–**	–
Cash and cash equivalents	**871,454**	523,864	**69,894**	2,707

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At 30 June 2007, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$773,983,000 (2006: HK$447,407,000). The RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks either earn interest at floating rates or time deposit rate for time deposits with varying periods between seven days and six months. The carrying amounts of the cash and cash equivalents approximate to their fair values.

27. ACCOUNTS AND BILLS PAYABLES

An aged analysis of the accounts and bills payables as at the balance sheet date is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**15,909**	49,932
91 to 180 days	**1,946**	9,578
181 to 365 days	**594**	2,322
Over 365 days	**1,179**	2,636
	19,628	64,468

The accounts and bills payables are non-interest-bearing and are normally settled on 90-day to 180-day terms. The carrying amounts approximate to their fair values.

28. BANK LOANS

	Effective interest rate %	Maturity	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Current:						
Bank loans – secured	6.34 – 7.06	August 2007 to May 2008	**61,586**	119,211	**–**	57,250
Non-current:						
Bank loans – secured	6.34 – 7.06	July 2008 to April 2027	**436,383**	38,352	**434,146**	14,250
			497,969	157,563	**434,146**	71,500
Analysis of bank loans repayable:						
Within one year			**61,586**	119,211	**–**	57,250
In the second year			**89,189**	30,945	**89,000**	14,250
In the third to fifth years, inclusive			**345,607**	968	**345,146**	–
Beyond five years			**1,587**	6,439	**–**	–
			497,969	157,563	**434,146**	71,500

At 30 June 2007, the Group's bank loans were supported by the following:

(a) the pledge of the Group's certain prepaid land lease payments, buildings, and plant and machinery of HK$1,278,000 (2006: HK$45,904,000), HK$16,374,000 (2006: HK$26,682,000) and HK$21,174,000 (2006: HK$21,715,000), respectively;

(b) corporate guarantees executed by certain subsidiaries of the Company; and

(c) the pledge of equity interests in three subsidiaries indirectly held by the Company.

In addition to the above, Mr. Zhang Peter Y. and Mr. Deng Jie have also undertaken certain covenants in relation to a syndicated loan. Details of said undertakings are set out in note (b) under the heading "Disclosures pursuant to Rule 13.21 of the Listing Rules" in the Report of Directors. Mr. Zhang Peter Y. and Mr. Deng Jie are directors and beneficial shareholders of Bull's-Eye Limited, a substantial shareholder of the Company.

Except for secured bank loans amounted to HK$63,823,000 in aggregate which are denominated in RMB and bear interests at fixed rates, all other borrowings are denominated in Hong Kong dollars and bear interests at floating rates.

The carrying amounts of bank loans approximate to their fair values.

29. CONVERTIBLE BONDS

On 22 July 2003, the Company and Credit Suisse First Boston (Hong Kong) Limited ("**CSFB**"), an independent third party, entered into a subscription agreement in relation to the subscription of unlisted and unsecured redeemable convertible bonds of the Company (the "**Subscription Agreement**").

Under the Subscription Agreement, among other things, (i) the Company agreed to issue and CSFB agreed to purchase convertible bonds of US$50,000 each with an aggregate principal amount of US$3,500,000 (the "**Original Tranche 1 Bonds**"); (ii) the Company granted to CSFB an option to require the Company to issue additional convertible bonds with an aggregate principal amount of up to US$4,500,000 on substantially the same terms as those of the Original Tranche 1 Bonds (the "**Additional Tranche 1 Bonds**"); and (iii) CSFB granted to the Company an option during a limited period after the conversion of all the Original Tranche 1 Bonds, to issue and to require CSFB to subscribe and pay for the convertible bonds with an aggregate principal amount of up to US$4,000,000 (the "**Tranche 2 Bonds**"). All the convertible bonds bear interest at a rate of 2.5% per annum and are due on 22 July 2006.

On 22 July 2003 and 5 September 2003, the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds of US$3,500,000 (equivalent to approximately HK$27,284,000) and US$4,500,000 (equivalent to approximately HK$35,077,000), respectively, were issued to CSFB.

The unsecured redeemable convertible bonds of the Company were convertible into ordinary shares of HK$0.10 each in the Company at the option of CSFB at a conversion price equal to either (i) HK$1.4879 per share in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds; a price to be determined by reference to the closing prices of the shares prior to the date on which the Tranche 2 Bonds are issued in respect of the Tranche 2 Bonds, both subject to adjustment; or (ii) at 93% of the average of the closing prices per share for any four consecutive days as selected by CSFB during the 30 consecutive business days immediately prior to the date on which the conversion notice of CSFB is received by the Company in respect of the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the Tranche 2 Bonds.

During the years ended 30 June 2004 and 2005, the entire Original Tranche I Bonds and certain of the Additional Tranche I Bonds in the aggregate amounts of US$7,950,000 issued to CSFB were converted into 67,752,000 ordinary shares of HK$0.10 each in the Company.

Pursuant to the Subscription Agreement, the Company has also granted subscription rights (the "**Subscription Rights**") to CSFB to subscribe for a further 20% of the number of shares which may fall to be issued by the Company pursuant to the exercise of each of the conversion rights attached to the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the Tranche 2 Bonds, respectively, and the number of the conversion shares which may fall to be issued shall be calculated on the basis of a base price determined with reference to the average closing price per share of the Company for certain number of days prior to the day on which the Original Tranche 1 Bonds were issued (in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds) and on the day on which the Tranche 2 Bonds will be issued (in respect of the Tranche 2 Bonds). The subscription price is HK$1.3094 per share for each of the shares to be subscribed for under the Subscription Rights in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds.

29. CONVERTIBLE BONDS (continued)

An aggregate principal amount of convertible bonds of US$50,000 (equivalent to HK$390,000) which remained outstanding at 30 June 2006 was repaid by the Group upon maturity during the year.

30. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Fair value adjustment arising from acquisition of subsidiaries *HK$'000*	Revaluation of leasehold buildings *HK$'000*	Total *HK$'000*
30 June 2007			
At 1 July 2006	25,266	1,365	26,631
Deferred tax credited to equity during the year	–	(59)	(59)
Disposal of subsidiaries *(note 34(a))*	(9,702)	–	(9,702)
Deferred tax credited to the income statement*	(2,603)	–	(2,603)
Exchange realignment	1,152	43	1,195
At 30 June 2007	14,113	1,349	15,462
30 June 2006			
At 1 July 2005	15,421	1,308	16,729
Deferred tax debited to equity during the year	–	7	7
Deferred tax assets derecognised during the year	9,247	–	9,247
Exchange realignment	598	50	648
At 30 June 2006	25,266	1,365	26,631

* *The amount credited to the income statement arose from the change in tax rates as further detailed in note 9 to the financial statements.*

30. DEFERRED TAX LIABILITIES (continued)

The Group has no tax losses available for offsetting against future taxable profits.

At 30 June 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of the Group's certain subsidiaries, associate or jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL

Shares

	Company	
	2007	2006
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (2006: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
880,734,400 (2006: 879,734,400) ordinary shares of HK$0.10 each	**88,073**	87,973

The following movements in the Company's authorised and issued share capital took place during the years ended 30 June 2006 and 2007:

(a) On various dates during the year ended 30 June 2006, a total of 9,000,000 shares in the Company of HK$0.10 each were allotted and issued pursuant to the exercise of 9,000,000 shares options at the subscription price of HK$0.64 per share for a total cash consideration of HK$5,760,000.

(b) On 7 August 2006, a total of 1,000,000 shares in the Company of HK$0.10 each were allotted and issued pursuant to the exercise of 1,000,000 share options at a subscription price of HK$0.64 per share for a total cash consideration of HK$640,000.

31. SHARE CAPITAL (continued)

Shares (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of issued shares '000	Nominal value of issued shares HK$'000
At 1 July 2005		870,734	87,073
Shares issued upon exercise of share options	*(a)*	9,000	900
At 30 June 2006 and 1 July 2006		879,734	87,973
Shares issued upon exercise of share options	*(b)*	1,000	100
At 30 June 2007		880,734	88,073

Share options

Further details of the Company's share option scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**"), which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives and rewards to selected eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons who provide research, development and technological support to the Group, shareholders of the Company's subsidiaries and advisers to the business development of the Group. Unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from 25 November 2002, the date on which the Scheme was conditionally adopted.

32. SHARE OPTION SCHEME (continued)

The total number of securities which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of the limit. The limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Any share options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options to be granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and commences from the date of acceptance of the grant of options and ends on a date which is not later than 10 years from the date of the grant of the share options subject to the provisions for early termination under the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of a share of the Company; (ii) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

The share options granted under the Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

32. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participants	Number of share options: At 1 July 2006	Exercised during the year	Lapsed during the year	At 30 June 2007	Date of grant of share options	Exercise period of share options	Weighted average closing price* *HK$*
Executive directors							
Mr. Zhang Peter Y.	600,000	–	(600,000)	–	1 September 2004	1 September 2004 to 31 August 2006	–
Mr. Xu Peng	600,000	–	(600,000)	–	1 September 2004	1 September 2004 to 31 August 2006	–
	1,200,000	–	(1,200,000)	–			
Other employees**							
In aggregate	2,400,000	–	(2,400,000)	–	1 September 2004	1 September 2004 to 31 August 2006	–
Others							
In aggregate	1,000,000	(1,000,000)	–	–	1 September 2004	1 September 2004 to 31 August 2006	1.43
	4,600,000	(1,000,000)	(3,600,000)	–			

The exercise price of the share options of HK$0.64 per share is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

* *The price of the Company's shares at the date of the grant of the share options under the Scheme was HK$0.64 per share and is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The weighted average closing price of the Company's shares at the date of the exercise of the share options is HK$1.43 per share which is also the weighted average closing price per share on the date immediately before the date of exercise of the options.*

** *Other employees include employees of the Group (other than the directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap. 57, Law of Hong Kong).*

32. SHARE OPTION SCHEME (continued)

No share options were granted during the year and no share option was outstanding under the Scheme as at 30 June 2007.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The share premium account of the Group includes shares issued at a premium, and the difference between the nominal value of the aggregate share/registered capital of the subsidiaries acquired pursuant to the group reorganisation completed in 2002 (the "Group Reorganisation"), over the nominal value of the Company's shares issued in exchange therefor.

In accordance with regulations in Mainland China, each of the Group's subsidiaries in Mainland China is required to transfer part of its profits after tax to its statutory reserve fund, until the reserve reaches 50% of the registered capital, before profit distributions are made. The statutory reserve fund is non-distributable. The amount of transfer is subject to the approval of the boards of directors of these companies in accordance with their articles of association.

33. RESERVES (continued)

(b) Company

		Reserves		
	Notes	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2005		353,785	(11,936)	341,849
Issue of shares upon exercise of share options	31	4,860	–	4,860
Profit for the year		–	30,559	30,559
Proposed final dividend	11	–	(17,615)	(17,615)
At 30 June 2006 and 1 July 2006		358,645	1,008	359,653
Issue of shares upon exercise of share options	31	540	–	540
Profit for the year		–	17,876	17,876
Proposed final dividend	11	–	(17,615)	(17,615)
At 30 June 2007		359,185	1,269	360,454

The share premium account of the Company includes shares issued at a premium; and the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor pursuant to the Group Reorganisation.

Under the Companies Law, Cap. 22 (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, 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 and when they fall due in the ordinary course of business.

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries during the year ended 30 June 2007:

	Notes	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	*13*	9,071
Prepaid land lease payments	*14*	36,459
Inventories		12,363
Accounts and bills receivables		74,535
Prepayments, deposits and other receivables		7,513
Pledged deposits		8,808
Cash and bank balances		6,033
Accounts and bills payables		(67,604)
Tax payable		(367)
Accrued liabilities and other payables		(4,836)
Bank loans		(19,353)
Deferred tax liabilities	*30*	(9,702)
		52,920
Release of exchange fluctuation reserve upon disposal		(2,565)
Gain on disposal of subsidiaries	*5*	2,969
		53,324
Satisfied by:		
Cash		15,279
Other receivable		38,045
		53,324

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration	15,279
Cash and bank balances disposed of	(6,033)
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	9,246

The subsidiaries disposed of during the year ended 30 June 2007 contributed HK$175,846,000 and HK$1,093,000 to the Group's consolidated revenue and profit after tax for the year, respectively.

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) At 30 June 2007, part of the considerations for the disposal of subsidiaries and an available-for-sale equity investment of HK$38,045,000 and HK$1,639,000, respectively, remained outstanding and were included in other receivables under current assets.

35. PENDING LITIGATION

On 22 January 2007, a claim was brought against the Company by an advisor alleging that the Company is liable for compensation for the services provided to the Company in prior years in relation to arranging the convertible bonds as detailed in note 29. The amount claimed by the advisor was HK$5,950,000. Up to the date of these financial statements, the legal proceedings are still in progress and no trial hearing had been conducted. Having considered the legal advice from the Company's legal counsel, the directors believe that the Company has a good arguable case in respect of the claim. Accordingly, the directors consider that no provision for the claim is necessary.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leased certain of its leasehold buildings under operating lease arrangements, with leases negotiated for original terms of one to four years.

At the balance sheet date, the Group had no future minimum lease receivables.

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for original terms ranging from two to ten years.

At the balance sheet dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,426**	345
In the second to fifth years, inclusive	**180**	4
	2,606	349

37. COMMITMENTS

As at 30 June 2007, the Group had contracted commitments of HK$33,207,000 (2006: HK$13,202,000) in respect of the purchases of technical knowhow/patent.

In addition, as at 30 June 2007, the Group had contracted commitments of HK$10,735,000 (2006: HK$33,981,000) in respect of the purchases of and construction of plant and equipment.

The Company had no significant commitments as at 30 June 2007 (2006: Nil).

38. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the financial statements, the Group also had the following material related party transactions/balances during the year:

(i) Details of the undertakings by certain directors of the Company in relation to the Group's banking facilities are set out under the heading "Disclosures pursuant to Rule 13.21 of the Listing Rules" in the Report of the Directors;

(ii) As at 30 June 2006, the Group had amounts due from directors of HK$9,247,000 arising from certain indemnities provided to the Company. The amounts had been settled during the current year.

(b) Compensation of key management personnel of the Group

The executive directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and bank balances. The Group has various other financial assets and liabilities such as accounts and bills receivables and accounts and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, liquidity risk and credit risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's debt obligation with floating interest rates.

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 28 to the financial statements. The directors of the Company believe the Group's exposure to cash flow interest rate risk is minimal.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has insignificant transactional currency exposures. Almost all of the Group's income and expenses are denominated either in HK$ or RMB, which are the functional currencies of the functional units generating the income and incurring the expenses. The Group believes its exposure to exchange rate risk is minimal.

The Group currently has not implemented any procedures to hedge its currency exposures. However, the management monitors the foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arise.

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and bank balances and available banking facilities. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 October 2007.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years prepared on the basis set out in the note below.

RESULTS

	Year ended 30 June				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**743,856**	627,925	601,921	507,064	219,043
Profit before tax	**174,322**	154,522	125,957	114,357	106,219
Tax	**(36,169)**	(27,135)	(23,404)	(18,126)	(17,186)
Profit for the year	**138,153**	127,387	102,553	96,231	89,033
Attributable to:					
Equity holders of the Company	**130,626**	123,146	101,427	95,017	85,883
Minority interests	**7,527**	4,241	1,126	1,214	3,150
	138,153	127,387	102,553	96,231	89,033

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 June				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**1,651,773**	1,181,812	1,023,925	722,144	381,376
Total liabilities	**(588,862)**	(303,791)	(326,063)	(271,125)	(126,140)
Minority interests	**(48,035)**	(36,572)	(31,064)	(35,757)	(127)
	1,014,876	841,449	666,798	415,262	255,109

Note:

The summary of the consolidated results of the Group for the year ended 30 June 2003 has been prepared as if the 2002 Group Structure had been in existence throughout that year.