



**FAR EAST PHARMACEUTICAL TECHNOLOGY
COMPANY LIMITED**

(Provisional Liquidators Appointed)

遠東生物制藥科技有限公司

(已委任臨時清盤人)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 399)

Annual Report 2004

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MESSAGE FROM CHAIRMAN

BUSINESS REVIEW

The Group's turnover for the year ended 30 June 2004 amounted to approximately HK\$29,092,000, representing a significant decrease from the year ended 30 June 2003. This significant decrease was mainly attributable to the deconsolidation of certain subsidiaries.

RESTRUCTURING

Following the appointment of the joint and several provisional liquidators (the "Provisional Liquidators") of the Company, Best Champion Holdings Limited ("the Investor"), had been identified for the restructuring of the Group. A proposal for the resumption of the trading in the shares of the Company was submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2006 (the "Resumption Proposal").

On 10 October 2007, the Stock Exchange issued a letter to Asian Capital (Corporate Finance) Limited, the financial advisor of the Company and advised that it had decided to allow the Company to proceed with the Resumption Proposal (as supplemented by subsequent submissions), subject to prior compliance with various conditions to the satisfaction of the Listing Division of the Stock Exchange within six months from the date of the letter, i.e. on or before 9 April 2008.

The Provisional Liquidators, the Investor and their respective advisors are working towards to fulfill the conditions imposed by the Listing Division.

FUTURE PROSPECTS

The Provisional Liquidators and the Investor have endeavored to reactivate the operations of the Group.

Co-operative Joint Venture

In April 2007, a co-operative joint venture ("the CJV") was established in the People's Republic of China ("the PRC") for distributing pharmaceutical and healthcare products. Since then, the CJV has been utilizing the strong network of its PRC joint venture partner for distributing pharmaceutical and healthcare products in the PRC and achieved a good result. The turnover of the CJV was over HK\$148 million for the six months from July to December 2007.

In view of the aging population, the increasing awareness of health care and increasing income level in the PRC, it is expected that the CJV will enjoy a stable growth in the business.

Laolaishou

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

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

The CJV entered into an exclusive distribution agreement with Laolaishou on 20 August 2007. Under the agreement, upon the successful resumption of trading in shares of the Company, the CJV will become the sole agent having the exclusivity right for distributing the products of Laolaishou in the PRC. In addition, the CJV will also become the sole licensee for operating "Laolaishou Health Clubs" in the PRC.

The sales of Laolaishou products are expected to grow and expected to help improving the Group's profitability.

MESSAGE FROM CHAIRMAN

Furthermore, the CJV will utilize the funds raised by the Company to set up its own Laolaishou Health Clubs and dedicated shops in other selected locations in the PRC. The directors believe that the setting up of own retail shops of the CJV and the assimilation of the existing licensed shops into the CJV will substantially enhance the profit margin of the Group mainly due to the capture of the retail sales margin into the Group.

Tai Kai Hing
Chairman

Hong Kong, 8 April 2008

MANAGEMENT PROFILE

EXECUTIVE DIRECTOR

Mr. Tai Kai Hing, aged 33, was appointed as executive director of the Company on 23 March 2007. Mr. Tai has acquired an extraordinary experience with broad exposures, starting his very first day as business consultant after graduation from the university. Since then, Mr. Tai has been working with professionals and senior managers from companies in different business sectors and scales.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Wai Man, aged 50, was appointed as an independent non-executive director of the Company on 23 March 2007. Mr. Chung has extensive experience in the banking, finance and business consulting industry.

Mr. Chiu Koon Shou, Victor, aged 38. Mr. Chiu was appointed as an independent non-executive director of the Company on 1 September 2004. Mr. Chiu is a practicing lawyer and a partner of Victor Chiu Tsang & Partners. Mr. Chiu has at least 13 years of experience in the legal industry.

MANAGEMENT

Mr. Lau Chung Kei, aged 39. Mr. Lau is a Chartered Financial Analyst and has extensive experience in corporate operations and management. Mr. Lau had worked with several international financial institutions and worked as directors or consultants for companies in various industries include manufacturing, pharmaceutical and retailing in Mainland China and Hong Kong.

Dr. Dong Hui, aged 46. Dr. Dong holds a master degree in Pharmacy of The Henan University of Traditional Chinese Medicine and a doctor degree in philosophy of China Pharmaceutical University and Toyama Medical and Pharmaceutical University. Dr. Dong has over 18 years experience in research and development, quality control, production management and market development on traditional Chinese medicines and natural product medicines.

Mr. Dong Qi, aged 34. Mr. Dong holds the qualification of a pharmacist and has approximately 10 years of working experience in the pharmaceutical industry. Mr. Dong had also worked in senior management position of several pharmaceutical companies.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the financial statements.

WINDING-UP PETITION AND RESTRUCTURING OF THE COMPANY

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

Subsequently, Best Champion Holdings Limited ("the Investor") expressed an interest in restructuring the Company. A proposal for the resumption of trading in the shares of the Company (the "Resumption Proposal") was submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2006.

On 10 October 2007, the Stock Exchange issued a letter to Asian Capital (Corporate Finance) Limited, the financial advisor of the Company and advised that it had decided to allow the Company to proceed with the Resumption Proposal (as supplemented by subsequent submissions), subject to prior compliance with various conditions to the satisfaction of the Listing Division of the Stock Exchange within six months from the date of the letter, i.e. on or before 9 April 2008.

The Provisional Liquidators, the Investor and their respective advisors are working towards to fulfill the conditions imposed by the Listing Division.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2004 are set out in the consolidated income statement on page 13.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the financial statements.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

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

	For the years ended 30 June				
	2004 HK\$'000	2003 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS					
Turnover	29,092	992,961	715,717	409,633	353,116
(Loss)/profit before tax	(1,456,614)	235,509	174,957	108,729	92,969
Income tax expense	-	(52,682)	(36,395)	(14,321)	(11,308)
(Loss)/profit for the year	(1,456,614)	182,827	138,562	94,408	81,661
Attributable to:					
Equity holders of the Company	(1,452,845)	175,040	134,739	94,275	73,874
Minority interests	(3,769)	7,787	3,823	133	7,787
	(1,456,614)	182,827	138,562	94,408	81,661
ASSETS AND LIABILITIES					
	As at 30 June				
	2004 HK\$'000	2003 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current assets	34,799	337,196	144,788	123,558	25,229
Current assets	157,843	958,233	690,830	223,055	123,682
Current liabilities	(167,756)	(142,794)	(134,729)	(56,185)	(50,990)
Non-current liabilities	(586,157)	(265,200)	-	-	-
Net (liabilities)/assets	(561,271)	887,435	700,889	290,428	97,921
Attributable to:					
Equity holders of the Company	(561,271)	865,250	695,857	289,229	97,921
Minority interests	-	22,185	5,032	1,199	-
Total equity	(561,271)	887,435	700,889	290,428	97,921

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors

Cai Chong Zhen (resigned on 1 September 2004)

Cai Cong Yi (resigned on 1 September 2004)

Chen Ching Ken (resigned on 1 September 2004)

Chen Wei (resigned on 30 July 2004)

Hung Chen, Richael (appointed on 30 July 2004 and resigned on 9 November 2004)

Shen Ye (appointed on 18 December 2003 and resigned on 30 July 2004)

Tso Ming Sing Barton (resigned on 18 June 2004)

Wong Sui Kwong (resigned on 18 December 2003)

Yu Shiu Tin, Paul (appointed on 1 September 2004 and resigned on 21 September 2004)

Tai Kai Hing (appointed on 23 March 2007)

Independent non-executive directors

Hu Ling Po (resigned on 1 September 2004)

Lo Wah Wai, Lowell (appointed on 1 September 2004 and resigned on 4 December 2006)

Chiu Koon Shou, Victor (appointed on 1 September 2004)

Yu Er Feng (resigned on 26 June 2004)

Chung Wai Man (appointed on 23 March 2007)

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

As disclosed in note 2 to the financial statements, the Directors were unable to obtain all the relevant information regarding the books and records of the Group, and therefore the Directors were unable to ascertain whether the former Independent Non-executive Directors of the corresponding year are independent of the Company pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

At 30 June 2004, the information regarding director's interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations is set out in the section "SUBSTANTIAL SHAREHOLDERS" below.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 34 to the financial statements.

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

During the year ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

As disclosed in note 2 to the financial statements, the Directors were unable to obtain all the relevant information regarding the books and records of the Group, and therefore the Directors were unable to ascertain if there is any contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO") shows that, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

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

Notes:

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

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

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

REPORT OF THE DIRECTORS

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2004.

FOREIGN EXCHANGE EXPOSURE

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

CORPORATE GOVERNANCE

The Company has not complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

As disclosed in note 2 to the financial statements, the Directors were unable to obtain all the relevant information regarding the books and records of the Group, and therefore the Directors were unable to ascertain whether the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

AUDIT COMMITTEE

The Company has not complied with Rule 3.21 of the Listing Rules. Throughout the year ended 30 June 2004, no audit committee has been established. Once the Stock Exchange approves the resumption of the trading in shares of the Company, appropriate personnel will be appointed as members of audit committee.

Since the audit committee has yet to be established, the annual results have not been reviewed by the audit committee.

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, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENT AFTER THE BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in note 37 to the financial statements.

REPORT OF THE DIRECTORS

AUDITORS

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

On behalf of the Board

Tai Kai Hing

CHAIRMAN

Hong Kong, 8 April 2008

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF

Far East Pharmaceutical Technology Company Limited (Provisional Liquidators Appointed)
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Far East Pharmaceutical Technology Company Limited (Provisional Liquidators Appointed) (the "Company") set out on pages 13 to 45, which comprise the consolidated balance sheet as at 30 June 2004, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

Basis for disclaimer of opinion

1 Scope Limitation - 上海德勝科技集團(安慶)制藥有限公司 ("安慶")

The Directors are unable to provide us sufficient information of the subsidiary 安慶 for us to carry out all necessary audit procedures. Hence, we were unable to satisfy ourselves as to whether the following items regarding 安慶 are fairly stated in these financial statements.

1.1 Transactions and Loss for the Year

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the transactions of 安慶 for the year ended 30 June 2004. There are no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the loss of 安慶 of approximately HK\$49,094,000 that is included in the consolidated loss of approximately HK\$1,456,614,000 for the year ended 30 June 2004.

1.2 Inventories

We were appointed as auditor of the Company subsequent to the balance sheet date of 30 June 2004. In consequence, we were unable to attend the Group's physical counts of inventories possessed by 安慶 as at that date. No sufficient stock records have been provided to us to verify the quantity and the carrying amount of inventories of approximately HK\$4,186,000 as at 30 June 2004. There are no other

INDEPENDENT AUDITOR'S REPORT

satisfactory audit procedures that we could adopt to satisfy ourselves as to the existence, quantities, conditions and valuation of these inventories as at 30 June 2004.

1.3 Trade Receivables

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the trade receivables of 安慶 totaling approximately HK\$5,146,000 as at 30 June 2004.

1.4 Bank Loans

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the bank loans of 安慶 totaling approximately HK\$24,972,000 as at 30 June 2004.

1.5 Trade Payables

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the trade payables of 安慶 totaling approximately HK\$8,676,000 as at 30 June 2004.

2 Scope Limitation – All Group Companies

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

2.1 Opening Balances and Corresponding Figures

The consolidated financial statements of the Company for the year ended 30 June 2003 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us. There were no satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of opening balances and the comparative figures shown in the current year's consolidated financial statements.

2.2 Loss on Deconsolidation of the Subsidiaries and Impairment on Investment Costs and Due from Deconsolidated Subsidiaries

No sufficient evidence has been provided to satisfy ourselves as to the loss on deconsolidation of the subsidiaries and the impairment on investment costs and due from deconsolidated subsidiaries of HK\$1,209,136,000 for the year ended 30 June 2004 as disclosed in note 10 to the financial statements.

2.3 Impairment on Other Receivables

No sufficient evidence has been provided to satisfy ourselves as to the impairment on other receivables of HK\$146,420,000 included in other losses for the year ended 30 June 2004 as disclosed in note 11 to the financial statements.

2.4 Employee Benefits

No sufficient evidence has been provided to satisfy ourselves as to the completeness of the employee benefits recorded for the year ended 30 June 2004.

2.5 Related Party Transactions

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of the related party transactions for the year ended 30 June 2004 as required by Hong Kong Accounting Standard 24 "Related Party Disclosures".

INDEPENDENT AUDITOR'S REPORT

Any adjustments to the figures as described from points 1 to 2 above might have a significant consequential effect on the Group's results and cash flows for the two years ended 30 June 2003 and 2004 and the financial positions of the Group as at 30 June 2003 and 2004 and the related disclosures thereof in the financial statements.

Material uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that a proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "Resumption Proposal") was submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 March 2006. The Resumption Proposal involves capital restructuring, debt restructuring, subscription of shares and group restructuring, resulting in a reduction of the Company's indebtedness.

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

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

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 30 June 2004 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA Certified Public Accountants
Hong Kong
8 April 2008

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2004

	<u>Notes</u>	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000 (Restated)
Turnover	7	29,092	992,961
Cost of sales		<u>(26,535)</u>	<u>(621,408)</u>
Gross profit		2,557	371,553
Other income	8	8,260	20,162
Selling expenses		(2,610)	(110,856)
Administrative expenses		<u>(53,333)</u>	<u>(42,714)</u>
(Loss)/profit from operations		(45,126)	238,145
Loss on deconsolidation of the subsidiaries and impairment on investment costs and due from deconsolidated subsidiaries	10	(1,209,136)	-
Other losses	11	(179,625)	-
Finance cost	12	<u>(22,727)</u>	<u>(2,636)</u>
(Loss)/profit before tax		(1,456,614)	235,509
Income tax expense	13	-	(52,682)
(Loss)/profit for the year	14	<u>(1,456,614)</u>	<u>182,827</u>
Attributable to:			
Equity holders of the Company	17	(1,452,845)	175,040
Minority interests		<u>(3,769)</u>	<u>7,787</u>
		<u>(1,456,614)</u>	<u>182,827</u>
Dividends	18	-	<u>40,715</u>
(Loss)/profit per share	19		
Basic (HK cents per share)		<u>(68.96)</u>	<u>8.60</u>
Diluted (HK cents per share)		<u>N/A</u>	<u>8.34</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2004

	<u>Notes</u>	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment	20	25,392	150,094
Prepaid lease payments	21	9,407	9,607
Goodwill	22	-	3,973
Intangible assets	23	-	77,238
Deposits for land use right and construction in progress	24	-	96,284
		<u>34,799</u>	<u>337,196</u>
Current assets			
Inventories	25	4,186	73,072
Prepayments, deposits and other receivables		3,074	51,770
Trade receivables	26	5,146	188,984
Prepaid lease payments	21	200	200
Bank and cash balances	27	145,237	644,207
		<u>157,843</u>	<u>958,233</u>
Current liabilities			
Bank loans	28	24,972	2,648
Trade payables	29	10,489	61,525
Accruals and other payables	30	132,295	67,086
Current tax liabilities		-	11,535
		<u>167,756</u>	<u>142,794</u>
Net current (liabilities)/assets		<u>(9,913)</u>	<u>815,439</u>
Total assets less current liabilities		<u>24,886</u>	<u>1,152,635</u>
Non-current liabilities			
Bank loans	28	585,000	265,200
Deferred taxation	31	1,157	-
		<u>586,157</u>	<u>265,200</u>
NET (LIABILITIES)/ASSETS		<u>(561,271)</u>	<u>887,435</u>
Capital and reserves			
Share capital	32	54,394	50,894
Reserves	33	(615,665)	814,356
Equity attributable to equity holders of the Company		<u>(561,271)</u>	<u>865,250</u>
Minority interests		-	22,185
TOTAL EQUITY		<u>(561,271)</u>	<u>887,435</u>

Approved by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2004

	Attributable to equity holders of the Company										
	Share capital	Share premium account	Statutory surplus reserve	Statutory public welfare reserve	Capital reserve	Property revaluation reserve	Foreign currency translation reserve	Retained profits / (accumulated losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)										
At 1 July 2002	50,893	323,588	27,687	7,554	11,022	11,303	1,583	262,227	695,857	5,032	700,889
Revaluation surplus on buildings	-	-	-	-	-	17,245	-	-	17,245	755	18,000
Net income recognised directly in equity	-	-	-	-	-	17,245	-	-	17,245	755	18,000
Profit for the year	-	-	-	-	-	-	-	175,040	175,040	7,787	182,827
Total recognised income and expense for the year	-	-	-	-	-	17,245	-	175,040	192,285	8,542	200,827
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	4,680	4,680
Capital contribution	-	-	-	-	-	-	-	-	-	3,931	3,931
Transfer	-	-	18,196	-	-	-	-	(18,196)	-	-	-
Issue of share capital	1	9	-	-	-	-	-	-	10	-	10
Dividend paid	-	-	-	-	-	-	-	(22,902)	(22,902)	-	(22,902)
At 30 June 2003	50,894	323,597	45,883	7,554	11,022	28,548	1,583	396,169	865,250	22,185	887,435
At 1 July 2003	50,894	323,597	45,883	7,554	11,022	28,548	1,583	396,169	865,250	22,185	887,435
Revaluation surplus on buildings	-	-	-	-	-	3,470	-	-	3,470	-	3,470
Net income recognised directly in equity	-	-	-	-	-	3,470	-	-	3,470	-	3,470
Loss for the year	-	-	-	-	-	-	-	(1,452,845)	(1,452,845)	(3,769)	(1,456,614)
Total recognised income and expense for the year	-	-	-	-	-	3,470	-	(1,452,845)	(1,449,375)	(3,769)	(1,453,144)
Deconsolidation of subsidiaries	-	-	(44,885)	(7,554)	(11,022)	(28,548)	(1,583)	92,009	(1,583)	(18,416)	(19,999)
Shares issued on exercise of share option	3,500	61,652	-	-	-	-	-	-	65,152	-	65,152
Dividend paid	-	-	-	-	-	-	-	(40,715)	(40,715)	-	(40,715)
At 30 June 2004	54,394	385,249	998	-	-	3,470	-	(1,005,382)	(561,271)	-	(561,271)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2004

	Note	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities			
(Loss)/profit before tax		(1,456,614)	235,509
Adjustments for:			
Depreciation		2,062	20,817
Amortisation and impairment of goodwill and intangible assets		22,920	9,558
Loss on disposal of property, plant and equipment		10,523	60
Impairment on investment costs in the deconsolidated subsidiaries		333,846	-
Loss on deconsolidation of subsidiaries		237,335	-
Impairment on due from the deconsolidated subsidiaries		637,955	-
Impairment on other receivables		146,420	-
Impairment on prepayments		7,849	-
Interest income		(8)	(4,513)
Finance cost		22,727	2,636
Waive of trade payable to a supplier		(4,077)	(3,877)
Waive of bank loans to a bank		(4,175)	-
Provision for doubtful debts		9,046	670
Operating (loss)/profit before working capital changes		(34,191)	260,860
Change in inventories		(314)	(16,158)
Change in prepayments, deposits and other receivables		(116,480)	(36,071)
Change in trade receivables		7,426	992
Change in trade payables		(2,371)	(16,296)
Change in accruals and other payables		(162,979)	(16,191)
Change in amounts due to directors		-	(546)
Change in deposit for land use right and construction in progress		-	(96,284)
Cash (used in)/generated from operations		(308,909)	80,306
Overseas tax paid		-	(56,014)
Net cash (used in)/generated from operating activities		(308,909)	24,292
Cash flows from investing activities			
Interest received		8	4,513
Proceeds on disposal of property, plant and equipment		-	274
Purchase of property, plant and equipment		(3,702)	(3,693)
Loan to officers		-	(508)
Deconsolidation of subsidiaries	10	(534,376)	-
Acquisition of subsidiaries		-	(66,021)
Net cash used in investing activities		(538,070)	(65,435)
Cash flows from financing activities			
Interest paid		-	(1,448)
Dividend paid		(40,715)	(22,902)
Repayments of borrowings		-	(24,924)
New bank loans raised		323,572	265,200
Proceeds from issue of shares for cash consideration		65,152	10
Capital contribution by minority		-	3,931
Net cash generated from financing activities		348,009	219,867
Net (decrease)/increase in cash and cash equivalents		(498,970)	178,724
Cash and cash equivalents at beginning of year		644,207	465,483
Cash and cash equivalents at end of year		145,237	644,207
Analysis of cash and cash equivalents			
Bank and cash balances		145,237	644,207
		<u>145,237</u>	<u>644,207</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is 35th Floor, One Pacific Place, 88 Queensway, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended for trading since 17 June 2004.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the financial statements.

2. BASIS OF PREPARATION

Going concern

The Group incurred a loss attributable to equity holders of the Company of approximately HK\$1,452,845,000 for the year ended 30 June 2004 (2003: profit of approximately HK\$175,040,000) and as at 30 June 2004 the Group had net current liabilities of approximately HK\$9,913,000 (2003: net current assets of approximately HK\$815,439,000) and net liabilities of approximately HK\$561,271,000 (2003: net assets of approximately HK\$887,435,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. As disclosed in note 28 to the financial statements, in July 2004, an event of default occurred in respect of a syndicated loan totaling approximately HK\$585,000,000 as at 30 June 2004 and such amounts have become repayable on demand. The bank loan, together with the corresponding finance cost, was therefore reclassified as a current liability in subsequent years.

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

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

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

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

On 10 October 2007, the Stock Exchange issued a letter to Asian Capital (Corporate Finance) Limited and advised that it had decided to allow the Company to proceed with the Resumption Proposal (as supplemented by subsequent submissions), subject to prior compliance with various conditions to the satisfaction of the Listing Division of the Stock Exchange within six months from the date of the letter, i.e. on or before 9 April 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

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

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

In the opinion of the Directors, the financial statements for the year ended 30 June 2004 prepared on the going concern basis present fairly the results, state of affairs and cash flows of the Group.

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

Loss of books and records of a subsidiary

The Directors have used their best endeavors to relocate all the financial and business records of a subsidiary, 上海德勝科技集團(安慶)制藥有限公司 ("安慶"), as some of its books and records for the year ended 30 June 2004 have been lost and most of the former accounting personnel of 安慶 have left. The Directors were unable to obtain sufficient information to satisfy themselves regarding the treatment of various balances of the subsidiary as at 30 June 2004.

The financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence described above, the Directors were unable to ascertain that the opening balances and corresponding figures of 安慶 for the year ended 30 June 2004 have been properly reflected in the books and records and in the financial statements.

Insufficient information provided by the Directors

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

i) Related party transactions

The Directors were unable to ascertain the existence and completeness of the disclosures of the related party transactions for the year ended 30 June 2004 as required by HKAS 24 "Related Party Disclosures".

ii) Employee benefits

The Directors were unable to ascertain the existence and completeness of the disclosures of the employee benefits and retirement benefits scheme.

Deconsolidation of subsidiaries

The financial statements have been prepared based on the books and records maintained by the Group. However, the Directors considered that the control over certain subsidiaries including Global Profit Far East Limited, Fujian Desheng Pharmaceuticals Company Limited, 福建延年藥業有限公司, 廈門泰倫生物工程 有限公司, 德勝生物科技(深圳)有限公司 and 德勝藥業(上海)有限公司 has been lost from 1 July 2003. The results, assets and liabilities and cash flows of these subsidiaries were deconsolidated from the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

Any adjustment arising from the matters described above might have a significant consequential effect on the Group's results for the year ended 30 June 2004 and the related disclosures thereof in the financial statements.

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

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

In the current year, the Group has early adopted, for the first time, all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

The applicable HKFRSs are set out below and the 2003 financial statements have been restated in accordance with the relevant requirements, where applicable.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 32	Financial instruments: disclosure and presentation
HKAS 33	Earnings per share
HKAS 34	Interim financial reporting
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: recognition and measurement
HKFRS 2	Share-based payments
HKFRS 3	Business combinations

The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

a) Minority interests

In previous years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the shareholders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. This change in accounting policy has been applied retrospectively.

b) Leases

The adoption of HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to prepaid lease payments. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and impairment losses. HKAS 17 has been applied retrospectively.

The adoption of HKAS 17 resulted in changes in the amounts reported in the balance sheet as follows:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Decrease in property, plant and equipment	(9,607)	(9,807)
Increase in prepaid lease payments	<u>9,607</u>	<u>9,807</u>
Net effect on the financial positions	<u>-</u>	<u>-</u>

b) Business combinations

The adoption of HKFRS 3 "Business Combinations" resulted in a change in the accounting policy for goodwill. Until 30 June 2003, goodwill was amortised on a straight line basis over the estimated useful life and was assessed by the Directors for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 July 2003. Accumulated amortisation as at 30 June 2003 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 30 June 2004 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

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

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

Consolidation

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

c) Translation on consolidation

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

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

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

Property, plant and equipment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

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

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

Buildings	Over the lease terms or 30 years, whichever is shorter
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

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

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

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

Operating leases

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

Trade and other receivables

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

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

Cash and cash equivalents

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

Borrowing

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

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

Trade and other payables

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

Revenue recognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

Employee benefits

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

Borrowing costs

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

Taxation

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

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

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

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

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

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

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

Related parties

A party is related to the Group if:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

- b) the party is an associate;
- c) the party is a joint venture;
- d) the party is a member of the key management personnel of the Company or its parent;
- e) the party is a close member of the family of any individual referred to in (a) or (d);
- f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

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

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

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

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

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

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

Events after the balance sheet date

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

a) Going concern basis

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

Key sources of estimation uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

a) Depreciation of property, plant and equipment

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

b) Allowance for bad and doubtful debts

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

c) Allowance for inventories

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

6. FINANCIAL RISK MANAGEMENT

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

a) Foreign currency risk

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

b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 30 June 2004 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

c) Liquidity risk

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

d) Interest rate risk

The bank borrowings of the Group's subsidiary 上海德勝科技集團(安慶)制藥有限公司("安慶") bear interests at fixed interest rates and therefore are subject to fair value interest rate risks. The Group's other bank borrowings bear interests at variable rates varied with the then prevailing market condition.

e) Fair values

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

7. TURNOVER

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

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Sales of pharmaceutical products	<u>29,092</u>	<u>992,961</u>

8. OTHER INCOME

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Interest income	8	4,513
Waive of trade payables to a supplier	4,077	3,877
Waive of bank loans to a bank	4,175	-
Lease income for granting the rights to manufacture and sale of pharmaceutical products	-	11,250
Exchange gain	-	124
Sundry income	-	398
	<u>8,260</u>	<u>20,162</u>

9. SEGMENT INFORMATION

Primary reporting format - business segments

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

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For the year ended 30 June 2004

	Manufacturing and distribution		Corporate and others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<u>Years ended 30 June 2004 and 2003</u>						
Turnover	<u>29,092</u>	<u>992,961</u>	<u>-</u>	<u>-</u>	<u>29,092</u>	<u>992,961</u>
Segment results	<u>(17,228)</u>	<u>215,615</u>	<u>(36,158)</u>	<u>2,368</u>	<u>(53,386)</u>	<u>217,983</u>
Other income					<u>8,260</u>	<u>20,162</u>
Loss from operations					<u>(45,126)</u>	<u>238,145</u>
Loss on deconsolidation of the subsidiaries and impairment on investment costs and due from unconsolidated subsidiaries					<u>(1,209,136)</u>	<u>-</u>
Other losses					<u>(179,625)</u>	<u>-</u>
Finance cost					<u>(22,727)</u>	<u>(2,636)</u>
(Loss)/profit before tax					<u>(1,456,614)</u>	<u>235,509</u>
<u>At 30 June 2004 and 2003</u>						
Segment assets	47,660	1,181,321	144,982	114,108	<u>192,642</u>	<u>1,295,429</u>
Segment liabilities	45,400	110,825	-	297,169	45,400	407,994
Unallocated liabilities					<u>708,513</u>	<u>-</u>
Total liabilities					<u>753,913</u>	<u>407,994</u>
<u>Other segment information:</u>						
Capital expenditure	3,702	3,502	-	191	3,702	3,693
Depreciation	2,062	20,569	-	248	2,062	20,817
Amortisation	-	9,558	-	-	-	9,558
Non-cash expenses other than depreciation and amortisation	16,895	1,415	-	15	16,895	1,430
Surplus on revaluation of building recognised directly in equity	<u>3,470</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>3,470</u>	<u>18,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

Secondary reporting format - geographical segments

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

10. LOSS ON DECONSOLIDATION OF THE SUBSIDIARIES AND IMPAIRMENT ON INVESTMENT COSTS AND DUE FROM DECONSOLIDATED SUBSIDIARIES

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Loss on deconsolidation of subsidiaries (note a)	237,335	-
Impairment on investment costs in the deconsolidated subsidiaries	333,846	-
Impairment on due from the deconsolidated subsidiaries	<u>637,955</u>	<u>-</u>
	<u>1,209,136</u>	<u>-</u>

a) Loss on deconsolidation of subsidiaries

As disclosed in note 2 to the financial statements, the Directors considered that the control over certain subsidiaries including Global Profit Far East Limited, Fujian Desheng Pharmaceuticals Company Limited, 福建延年藥業有限公司, 廈門泰倫生物工程有限公同, 德勝生物科技(深圳)有限公司 and 德勝藥業(上海)有限公司 has been lost since 1 July 2003. The results, assets and liabilities and cash flows of these subsidiaries were deconsolidated from the financial statements of the Group.

Net assets of these subsidiaries as at 1 July 2003 were as follows:

	HK\$'000
Property, plant and equipment	120,446
Deposits for land use right and construction in progress	96,284
Intangible assets	54,518
Goodwill	3,973
Inventories	69,200
Trade receivables	167,366
Prepayments, deposits and other receivables	10,907
Bank and cash balances	534,376
Trade payables	(44,588)
Accruals and other payables	(64,914)
Current tax liabilities	(11,535)
Net amount due to the Group	<u>(344,853)</u>
Net assets deconsolidated	591,180
Release of foreign currency translation reserve	(1,583)
Minority interests	(18,416)
Investment costs	(333,846)
Loss on deconsolidation of subsidiaries	<u>237,335</u>
Net cash outflow arising on deconsolidation of subsidiaries:	
Cash and cash equivalents of subsidiaries deconsolidated	<u>(534,376)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

11. OTHER LOSSES

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Impairment on other receivables	146,420	-
Loss on disposal of property, plant and equipment of 安慶	10,485	-
Impairment on intangible assets of 安慶	22,720	-
	<u>179,625</u>	<u>-</u>

12. FINANCE COST

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Interest on bank loans and syndicated borrowings	<u>22,727</u>	<u>2,636</u>

13. INCOME TAX EXPENSE

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Current tax - Overseas Provision for the year	<u>-</u>	<u>52,682</u>

No provision for Hong Kong Profits Tax has been made for the year ended 30 June 2004 (2003: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the loss before tax is as follows:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
(Loss)/profit before tax	<u>(1,456,614)</u>	<u>235,509</u>
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	(254,907)	41,214
Tax effect of expenses that are not deductible	254,907	-
Effect of difference in tax rates of subsidiaries operating in other jurisdictions	<u>-</u>	<u>11,468</u>
	<u>-</u>	<u>52,682</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

14. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging the following:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Amortisation of intangible assets	-	8,462
Amortisation of goodwill	-	1,096
Depreciation	2,062	20,817
Directors' emoluments	-	5,686
Operating lease charges of land and buildings	200	2,346
Auditor's remuneration (Note a)	-	1,303
Cost of inventories sold	26,535	621,408
Loss on disposal of property, plant and equipment	10,523	60
Impairment on intangible assets	22,720	-
Impairment on prepayments	7,849	-
Allowance for trade receivables	9,046	670
Staff costs including directors' emoluments		
Salaries, bonus and allowances	1,778	16,023
Retirement benefits scheme contributions	-	1,315
	<u>1,778</u>	<u>17,338</u>

a) Auditor's remuneration for the year ended 30 June 2004 is borne by the Investor.

15. DIRECTORS' EMOLUMENTS

The emoluments of each Director were as follows:

Name of Directors	Fee	Salaries and allowances	Discretionary bonus	Share- based payments	Retirement benefit scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cai Chong Zhen	-	-	-	-	-	-
Cai Cong Yi	-	-	-	-	-	-
Chen Ching Ken	-	-	-	-	-	-
Wong Sui Kwong (note a)	-	-	-	-	-	-
Chen Wei	-	-	-	-	-	-
Tso Ming Sing, Barton (note b)	-	-	-	-	-	-
Shen Ye	-	-	-	-	-	-
Hu Ling Po	-	-	-	-	-	-
Yu Er Feng (note c)	-	-	-	-	-	-
Total for 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

a) Resigned on 18 December 2003

b) Resigned on 18 June 2004

c) Resigned on 26 June 2004

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

The five highest paid individuals in the Group during the year included nil (2003: 5) Directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 5 (2003: Nil) individuals are set out below:

	2004 HK\$'000	2003 HK\$'000
Basic salaries and allowances	1,417	-
Discretionary bonus	-	-
Retirement benefit scheme contributions	-	-
	<u>1,417</u>	<u>-</u>

The emoluments fell within the following band:

	Number of individuals	
	2004	2003
Nil - HK\$1,000,000	<u>5</u>	<u>-</u>

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

16. RETIREMENT BENEFIT SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK\$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

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

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

The loss for the year attributable to equity holders of the Company included a loss of approximately HK\$ 998,364,000 (2003: profit of approximately HK\$41,744,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

18. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Proposed final of HK\$Nil (2003: HK cents 8) per ordinary share	-	40,715

19. (LOSS)/PROFIT PER SHARE

Basic (loss)/profit per share

The calculation of basic loss (2003: profit) per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK\$1,452,845,000 (2003: profit attributable to equity holders of the Company of approximately HK\$175,040,000) and the weighted average number of ordinary shares of 2,106,857,154 (2003: 2,035,730,408, as adjusted to reflect the share subdivision) in issue during the year.

Diluted (loss)/profit per share

No diluted loss per share for the year ended 30 June 2004 is presented as the Company did not have any dilutive potential ordinary sharing during the year. The calculation of diluted earning per share for the year ended 30 June 2003 attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK\$175,040,000 and the weighted average number of ordinary shares of 2,098,325,456, being the weighted average number of ordinary shares of 2,035,730,408 (adjusted to reflect the effect on share subdivision) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 62,595,048 (adjusted to reflect the effect on share subdivision) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Cost or valuation</u>							
At 1 July 2002 (as restated)	51,492	6,422	58,056	1,184	1,753	-	118,907
Acquisition of subsidiaries	34,939	-	15,082	185	1,277	2,030	53,513
Additions	434	24	673	350	911	1,301	3,693
Surplus on revaluation	11,273	-	-	-	-	-	11,273
Disposals	(606)	-	(48)	-	(24)	-	(678)
Transfer from Construction in progress to buildings	2,218	-	-	-	-	(2,218)	-
At 30 June 2003 and 1 July 2003 (as restated)	99,750	6,446	73,763	1,719	3,917	1,113	186,708
Additions	-	-	2,332	-	4	1,366	3,702
Disposals	-	-	(10,485)	(64)	-	-	(10,549)
Deconsolidation of subsidiaries	(94,070)	(6,446)	(47,360)	(1,655)	(3,300)	335	(152,496)
Surplus on revaluation	4,438	-	-	-	-	-	4,438
At 30 June 2004	10,118	-	18,250	-	621	2,814	31,803

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

Accumulated depreciation

At 1 July 2002 (as restated)	-	4,979	16,293	460	1,136	-	22,868
Charge for the year	7,047	1,069	11,991	253	457	-	20,817
Written back on disposals	(320)	-	(6)	-	(18)	-	(344)
Written back on revaluation	(6,727)	-	-	-	-	-	(6,727)
At 30 June 2003 and 1 July 2003 (as restated)	-	6,048	28,278	713	1,575	-	36,614
Charge for the year	189	-	1,753	-	120	-	2,062
Written back on disposals	-	-	-	(26)	-	-	(26)
Written back on deconsolidation of subsidiaries	-	(6,048)	(23,936)	(687)	(1,379)	-	(32,050)
Written back on revaluation	(189)	-	-	-	-	-	(189)
At 30 June 2004	-	-	6,095	-	316	-	6,411

Carrying amounts

At 30 June 2004	10,118	-	12,155	-	305	2,814	25,392
At 30 June 2003 (as restated)	99,750	398	45,485	1,006	2,342	1,113	150,094

The analysis of the cost or valuation at 30 June 2004 of the above assets is as follows:

At cost	-	-	18,250	-	621	2,814	21,685
At valuation 2004	10,118	-	-	-	-	-	10,118
	10,118	-	18,250	-	621	2,814	31,803

The analysis of the cost or valuation at 30 June 2003 of the above assets is as follows:

At cost	-	6,446	73,763	1,719	3,917	1,113	86,958
At valuation 2003	99,750	-	-	-	-	-	99,750
	99,750	6,446	73,763	1,719	3,917	1,113	186,708

At 30 June 2004 the carrying amount of property, plant and equipment pledged as security for the Group's bank loans amounted to approximately HK\$10,118,000 (2003: approximately HK\$99,750,000).

During the year the Group changed the estimated useful lives of the plant and machinery from 5 years to 10 years and of the buildings from 10 years to 30 years respectively. As a result of this change in accounting estimate, the depreciation charge decreased by approximately HK\$2,062,000 for the year and will also decrease by approximately HK\$2,062,000 for each of the following 2 years.

21. PREPAID LEASE PAYMENTS

	2004 HK\$'000	2003 HK\$'000 (Restated)
Leasehold land in the PRC		
Medium-term lease	9,607	9,807
Analysed for reporting purpose as:		
Non-current asset	9,407	9,607
Current asset	200	200
	9,607	9,807

At 30 June 2004 the carrying amount of prepaid lease payments pledged as security for the Group's bank loans amounted to approximately HK\$9,607,000 (2003: approximately HK\$9,807,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

22. GOODWILL

	HK\$'000
<u>Cost</u>	
At 1 July 2002	2,319
Acquisition of subsidiaries	3,368
Transfer on adoption of HKFRS 3	<u>(1,714)</u>
At 30 June 2003 and 1 July 2003	3,973
Deconsolidation of subsidiaries	<u>(3,973)</u>
At 30 June 2004	<u>-</u>
<u>Accumulated amortisation and impairment loss</u>	
At 1 July 2002	618
Amortisation for the year	1,096
Transfer on adoption of HKFRS 3	<u>(1,714)</u>
At 30 June 2003, 1 July 2003 and 30 June 2004	<u>-</u>
<u>Carrying amount</u>	
At 30 June 2004	<u>-</u>
At 30 June 2003	<u>3,973</u>

23. INTANGIBLE ASSETS

	HK\$'000
<u>Cost</u>	
At 1 July 2002	39,988
Acquisition of subsidiaries	<u>48,459</u>
At 30 June 2003 and 1 July 2003	88,447
Deconsolidation of subsidiaries	<u>(54,518)</u>
At 30 June 2004	<u>33,929</u>
<u>Accumulated amortisation and impairment losses</u>	
At 1 July 2002	2,747
Amortisation for the year	<u>8,462</u>
At 30 June 2003 and 1 July 2003	11,209
Impairment loss	<u>22,720</u>
At 30 June 2004	<u>33,929</u>
<u>Carrying amount</u>	
At 30 June 2004	<u>-</u>
At 30 June 2003	<u>77,238</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

24. DEPOSITS FOR LAND USE RIGHT AND CONSTRUCTION IN PROGRESS

The Group, through its subsidiary, 德勝藥業(上海)有限公司 ("德勝上海") had entered into an agreement with the Land Administration Bureau of the Qingpu District, Shanghai City, the PRC (the "LAB") in respect of the purchase of a parcel of land in Qingpu District, Shanghai City, the PRC for the purposes of establishment of drug production facilities and its related auxiliary facilities. The cost payment amounting to approximately of HK\$56,540,000 of the land use right was paid. The land use right certificate of the land had not been obtained. The deposit payments for construction on the relevant production facilities and its related auxiliary facilities were amounted to approximately HK\$39,744,000.

As disclosed in note 2 to the financial statements, 德勝上海 was deconsolidated from the Group since 1 July, 2003. The deposits for such land use right and construction in progress of approximately HK\$96,284,000 was written off during the year ended 30 June 2004.

25. INVENTORIES

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Raw materials	531	52,729
Work in progress	-	2,226
Finished goods	3,655	18,117
	<u>4,186</u>	<u>73,072</u>

26. TRADE RECEIVABLES

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

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
30 days or less	1,704	98,771
31 days to 60 days	964	70,157
61 days to 180 days	2,478	19,467
Over 180 days	-	589
	<u>5,146</u>	<u>188,984</u>

As at 30 June 2004, an allowance was made for estimated irrecoverable trade receivables of approximately HK\$9,046,000 (2003: approximately HK\$670,000).

27. BANK AND CASH BALANCES

As at 30 June 2004, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$254,000 (2003: approximately HK\$226,661,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

28. BANK LOANS

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Bank loans	<u>609,972</u>	<u>267,848</u>
The borrowings are repayable as follows:		
On demand or within one year	24,972	2,648
Within 2 to 5 years	<u>585,000</u>	<u>265,200</u>
	609,972	267,848
Less: Amount due for settlement within 12 months (shown under current liabilities)	(24,972)	(2,648)
Amount due for settlement after 12 months	<u>585,000</u>	<u>265,200</u>

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

	<u>USD</u> HK\$'000	<u>RMB</u> HK\$'000	<u>Total</u> HK\$'000
2004			
Bank loans	<u>585,000</u>	<u>24,972</u>	<u>609,972</u>
2003			
Bank loans	<u>265,200</u>	<u>2,648</u>	<u>267,848</u>

The average interest rates at 30 June were as follows:

	<u>2004</u>	<u>2003</u>
Bank loans	<u>5%</u>	<u>5%</u>

Bank loans of approximately HK\$24,972,000 (2003: approximately HK\$2,648,000) are arranged at fixed interest rates and exposed the Group to fair value interest rate risk. Other borrowings of approximately HK\$585,000,000 (2003: approximately HK\$265,200,000) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

In July 2004, an event of default occurred in respect of a syndicated loan totaling approximately HK\$585,000,000 as at 30 June 2004 and such amount has become repayable on demand. Such bank loan is reclassified as a currency liability in subsequent years. On 15 September 2004, SCBHK filed a petition for the winding-up of the Company.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2004

29. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
30 days or less	1,645	49,062
31 days to 60 days	804	1,433
61 days to 180 days	790	2,279
Over 180 days	7,250	8,751
	<u>10,489</u>	<u>61,525</u>

30. ACCRUALS AND OTHER PAYABLES

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Accruals and other payables	10,532	57,870
Due to deconsolidated subsidiaries	115,827	-
Due to related companies	5,936	9,216
	<u>132,295</u>	<u>67,086</u>

The amounts due to related companies are unsecured, non-interest bearing and have no fixed repayment terms.

31. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised by the Group.

	<u>Revaluation of buildings</u> HK\$'000
At 1 July 2003	-
Charge to equity for the year	1,157
At 30 June 2004	<u>1,157</u>

32. SHARE CAPITAL

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Authorized:		
4,000,000,000 ordinary shares of HK\$0.025 each (2003: 1,000,000,000 ordinary shares of HK\$0.10 each)	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
2,175,742,400 ordinary shares of HK\$0.025 each (2003: 508,935,600 ordinary shares of HK\$0.10 each)	<u>54,394</u>	<u>50,894</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

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

	<u>Number of Share issued</u>	<u>Par value HK\$'000</u>
Share capital as at 1 July 2002	508,932,000	50,893
Share issued on exercise of warrants (Note a)	<u>3,600</u>	<u>1</u>
Share capital as at 30 June 2003 and 1 July 2003	508,935,600	50,894
Share issued on subdivision (Note b)	1,526,806,800	-
Share issued on exercise of share options (Note c)	<u>140,000,000</u>	<u>3,500</u>
Share capital as at 30 June 2004	<u><u>2,175,742,400</u></u>	<u><u>54,394</u></u>

- a) By an ordinary resolution passed at an extraordinary general meeting of the Company on 29 April 2002, the Company issued warrants conferring the warrant holders rights to subscribe for shares in the Company between 7 May 2002 and 6 May 2003 (both days inclusive) on the basis of one warrant for every five shares in the Company then held. Each of the warrant entitles the registered holders to subscribe for new shares of HK\$0.10 each in the Company at an initial subscription price of HK\$2.62 per share. During the year, 3,600 units of the warrants were exercised and rights allocated to the remaining warrants expired after 6 May 2003.
- b) At the extraordinary general meeting of the Company held on 27 October 2003, an ordinary resolution was passed to approve the subdivision of each of the existing issued and unissued shares of HK\$0.10 each in the share capital of the Company to be subdivided (the "Share Subdivision") into four shares of HK\$0.025 each (the "Subdivision Shares"). Immediately following the implementation of the share Subdivision, (i) the authorised share capital of the Company will be HK\$100,000,000 which is divided into 4,000,000,000 Subdivided Shares and (ii) 2,035,742,400 Subdivided Shares will be issued.
- c) During the year, 32,000,000 and 108,000,000 shares options were exercised by a director and the employees of the Company at subscription prices of HK\$0.1924 and HK\$0.54625 respectively for a total consideration of HK\$65,151,800 resulting in the issue of 140,000,000 new shares of HK\$0.025 each.

33. RESERVES

a) Group

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

b) Company

	Note	Share premium account HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 July 2002		323,588	104,915	25,508	454,011
Profit for the year	17	-	-	41,744	41,744
Issue of shares		9	-	-	9
Dividend paid		-	-	(22,902)	(22,902)
At 30 June 2003		<u>323,597</u>	<u>104,915</u>	<u>44,350</u>	<u>472,862</u>
At 1 July 2003		323,597	104,915	44,350	472,862
Loss for the year	17	-	-	(998,364)	(998,364)
Issues of shares on exercise of share option		61,652	-	-	61,652
Dividend paid		-	-	(40,715)	(40,715)
At 30 June 2004		<u>385,249</u>	<u>104,915</u>	<u>(994,729)</u>	<u>(504,565)</u>

c) Nature and purpose of reserves of the Group

(i) Share premium account

Under the Companies Law (2007 Revision) of the Cayman Islands, subject to the Company's memorandum and articles of association, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory surplus reserve

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

(iii) Capital reserve

Capital reserve represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired, pursuant to the reorganisation scheme which rationalising the structure of the Group for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and completed on 26 July 2002 (the "Reorganisation"), over the nominal value of the share capital of the Company issued in exchange therefore.

(iv) Property revaluation reserve

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

(v) Foreign currency translation reserve

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

34. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time employees, executives and directors of the Company and the Company's subsidiaries. The Scheme became effective on 23 August 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

Name of category of participant	Date of grant of share options	Exercise period	Exercise price of share options HK\$	Balance as at 1/7/2002 and 30/6/2003	Exercised during the year	Balance as at 30/6/2004
Directors:						
Cai Chong Zhen	19/01/2001	19/1/2001 to 18/1/2011	0.163	12,000,000	-	12,000,000
	27/03/2001	27/3/2001 to 26/3/2011	0.192	22,000,000	-	22,000,000
Cai Cong Yi	19/01/2001	19/1/2001 to 18/1/2011	0.163	4,000,000	-	4,000,000
	27/03/2001	27/3/2001 to 26/3/2011	0.192	30,000,000	-	30,000,000
Ex-Director:						
Wong Sui Kwong	27/03/2001	27/3/2001 to 26/3/2011	0.192	32,000,000	(32,000,000)	-
Employees	21/01/2002	9/1/2002 to 8/1/2012	0.546	108,000,000	(108,000,000)	-
				<u>208,000,000</u>	<u>(140,000,000)</u>	<u>68,000,000</u>

Due to the share subdivision as stated in note 32(b), the exercise price per share and number of share options brought forward from last year have been adjusted to reflect the effect of the share subdivision during the year.

35. MAJOR NON-CASH TRANSACTION

During the year ended 30 June 2004, the bank borrowings was increased by approximately HK\$22,727,000 (2003: Nil) in respect of overdue bank interest.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

36. CONTINGENT LIABILITIES

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

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

37. EVENTS AFTER THE BALANCE SHEET DATE

Winding Up Petition

At the resumed hearing of the winding up petition on 26 November 2007, the Honourable Madam Justice Kwan ordered that the Petition be further adjourned to 13 May 2008.

Restructuring and Relisting

Stock Exchange's decision on resumption of trading

On 10 October 2007, the Stock Exchange issued a letter to Asian Capital (Corporate Finance) Limited and advised that the Listing Appeals Committee concurred with the decisions of the Listing Committee and the Listing (Review) Committee that the Company had not submitted a valid resumption proposal as required. Nevertheless, having considered all submissions (both written and oral) presented by the review parties for the purpose of the reconvened Review Hearing on 19 September 2007, it had decided to allow the Company to proceed with the Resumption Proposal (as supplemented by subsequent submissions), subject to prior compliance with various conditions to the satisfaction of the Listing Division of the Stock Exchange within six months from the date of the letter, i.e. on or before 9 April 2008.

Since then, the representatives of the Provisional Liquidators of the Company, the Investor and their respective advisors have been endeavoured to achieve full compliance of the conditions set out by the Stock Exchange.

In view of the fact that there are various long public holidays during the six-month period, the conditions could not be fully complied with on or before 9 April 2008. In the circumstances, the Company is now seeking from the Stock Exchange an extension for complying with the conditions.

Debt restructuring

The Company has made an application to the High Court of Hong Kong for a sanction to a Scheme of Arrangement (with modifications) under section 166 of the Hong Kong Companies Ordinance between the Company and all its creditors with non-preferential claims against the Company, which was duly approved at the Scheme Meeting ordered by the Court and held on 22 February 2008. The hearing of the application by the High Court is scheduled on 8 April 2008.

Capital restructuring

The Company will convene an extraordinary general meeting of the members to seek the shareholders' approval on the proposed capital restructuring. The Company has also made an application to the Cayman Islands Court in respect of the proposed reduction of the share capital in accordance with the Companies Law (2007 Revision) of the Cayman Islands. The hearing date of this petition is fixed on 20 June 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

38. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

<u>Name</u>	<u>Place of Incorporation /registration</u>	<u>Issued and paid-up capital</u>	<u>Percentage of voting ownership interest/power / profit sharing</u>		<u>Principal activities</u>
			<u>Direct</u>	<u>Indirect</u>	
Far East Global Group Limited	British Virgin Islands	1,001 ordinary shares of US\$1 each	100%	-	Investment holding
First Sight Technology Group Limited	British Virgin Islands	1 ordinary share of US\$1	100%	-	Investment holding
Boomtown Ventures Limited	British Virgin Islands	1 ordinary share of US\$1	100%	-	Investment holding
上海德勝科技集團 (安慶)製藥有限公司	People's Republic of China	Registered capital of RMB10M	-	90%	Manufacturing and distribution of pharmaceutical products

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 8 April 2008.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman & Executive Director

Tai Kai Hing

Independent Non-Executive Directors

Chung Wai Man
Chiu Koon Shou, Victor

AUDITORS

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

JOINT & SEVERAL PROVISIONAL LIQUIDATORS

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

REGISTERED OFFICE

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Cayman Islands

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