

# **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

## **1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 24 May 2000. The Group Reorganisation involved companies under common control. The condensed consolidated interim financial statements for the six months ended 31 December 2000 have been prepared using the merger basis of accounting in accordance with the Statement of Standard Accounting Practice No. 2.127, “Accounting for Group Reconstructions”, as a result of the Group Reorganisation took place on 26 July 2000. Under this basis, the condensed consolidated interim financial statements for the six months ended 31 December 2000 together with the comparative figures of the corresponding period in last year and the related notes thereto have also been presented in these condensed consolidated interim financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the subsidiaries on 26 July 2000 or since their respective dates of incorporation, where this is a shorter period.

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25, “Interim Financial Reporting”, except that the comparative figures of the condensed combined cash flow statement have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Listing Rules of the Stock Exchange.

The accounting policies and basis of presentation used in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the financial statements of the Group for the year ended 30 June 2000.

## 2. SEGMENTAL INFORMATION

The Group is principally engaged in the manufacture and distribution of pharmaceutical products. The Group's turnover and contribution to profit from operating activities, which are all derived from the Group's operations in the People's Republic of China (the "PRC"), are further analysed as follows:

	For the six months ended			
	31 December 2000		31 December 1999	
	Contribution to profit from operating activities		Contribution to profit from operating activities	
	Turnover	Turnover	Turnover	Turnover
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacture and distribution of:				
Anti-viral drugs	88,105	31,121	64,324	21,679
Antibiotics	32,525	7,816	30,005	6,460
Vitamins	27,907	1,646	15,636	730
Analgesics	21,024	1,986	13,995	1,230
Chinese patent medicines	15,203	5,130	7,912	2,316
Chinese tonic liquor	16,232	6,268	10,100	3,278
	<u>200,996</u>	<u>53,967</u>	<u>141,972</u>	<u>35,693</u>

## 3. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities for the period under review has been arrived at after charging depreciation of HK\$2,175,000 (1999: HK\$1,822,000) in respect of the Group's fixed assets.

#### 4. TAX

	<b>For the six months ended 31 December</b>	
	<b>2000</b>	1999
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current period provision:		
Overseas	<u>6,749</u>	<u>4,219</u>
Tax charge for the period	<u><b>6,749</b></u>	<u><b>4,219</b></u>

Hong Kong profits tax has not been provided because the Group did not generate any assessable profits arising in Hong Kong during the period under review (1999: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Deferred tax has not been provided because there were no significant timing differences at 31 December 2000 (1999: Nil).

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

#### 5. DIVIDEND

Dividend for the six months ended 31 December 1999 was declared by a wholly-owned subsidiary of the Company and was paid to its then shareholders prior to the Group Reorganisation.

The Board does not recommend to pay any interim dividend in respect of the six months ended 31 December 2000.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 31 December 2000 is based on the net profit from ordinary activities attributable to shareholders of HK\$47,218,000 (1999: HK\$31,326,000) and weighted average number of 296,956,522 ordinary shares (1999: 240,000,000 shares) in issue during the period.

No diluted earnings per share are presented because the Company had no potentially dilutive shares.

## 7. FIXED ASSETS

The changes in fixed assets for the six months ended 31 December 2000 are analysed as follows:

	<i>HK\$'000</i>
At 1 July 2000	25,229
Addition of leasehold land and buildings and plant and machinery in respect of the establishment of a new production plant and installation of related production equipment and facilities	16,130
Additions of other fixed assets	269
Depreciation	<u>(2,175)</u>
At 31 December 2000	<u><u>39,453</u></u>

## 8. ACCOUNTS RECEIVABLE

The ages of the accounts receivable are analysed as follows:

	<b>As at 31 December 2000 (Unaudited) HK\$'000</b>	<b>As at 30 June 2000 (Audited) HK\$'000</b>
Outstanding balances with ages:		
Within 30 days	<b>40,093</b>	42,615
Between 31 to 60 days	<b>14,131</b>	22,600
Between 61 to 180 days	<b>296</b>	9,661
	<b><u>54,520</u></b>	<b><u>74,876</u></b>

It is the Group's policy to grant a normal term of credits period of 60 days to its trade customers.

## 9. ACCOUNTS PAYABLE

The ages of the accounts payable are analysed as follows:

	<b>As at 31 December 2000 (Unaudited) HK\$'000</b>	<b>As at 30 June 2000 (Audited) HK\$'000</b>
Outstanding balances with ages:		
Within 30 days	<b>16,138</b>	12,625
Between 31 to 60 days	<b>—</b>	298
Over 60 days	<b>175</b>	144
	<b><u>16,313</u></b>	<b><u>13,067</u></b>

## 10. SHARE CAPITAL

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

	<b>Number of authorised shares</b>	<b>Number of issued shares</b>	<b>Nominal value of shares issued <i>HK\$'000</i></b>
Share allotted and issued at par for cash on incorporation	1,000,000	1	—
Increase in authorised share capital	999,000,000	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Far East Global Group Limited pursuant to the Group Reorganisation	—	999,999	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public share issue	—	239,000,000	—
Pro forma share capital as at 30 June 2000	1,000,000,000	240,000,000	100
New issue on public listing	—	80,000,000	8,000
Capitalisation of the share premium account at set out above	—	—	23,900
Share capital as at 31 December 2000	<u>1,000,000,000</u>	<u>320,000,000</u>	<u>32,000</u>

## 11. RESERVES

	Statutory reserves Note (i) HK\$'000	Fixed asset revaluation reserve HK\$'000	Capital reserve Note (ii) HK\$'000	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2000	13,111	4,314	11,022	—	69,374	97,821
Issue of shares	—	—	—	72,000	—	72,000
Transfer from retained profits to reserve	4,803	—	—	—	(4,803)	—
Capitalisation issue	—	—	—	(23,900)	—	(23,900)
Share issue expenses	—	—	—	(12,960)	—	(12,960)
Net profit for the period	—	—	—	—	47,218	47,218
At 31 December 2000	<u>17,914</u>	<u>4,314</u>	<u>11,022</u>	<u>35,140</u>	<u>111,789</u>	<u>180,179</u>

*Notes:*

### (i) Statutory reserves

A subsidiary of the Company operating in the PRC is required to transfer certain percentage of its profit after tax calculated in accordance with the relevant PRC rules and regulations to the statutory reserves. The reserves may be used to reduce any losses incurred by the PRC subsidiary or be capitalised as paid-up capital of the PRC subsidiary and are available for capital expenditure incurred for staff welfare facilities. The reserve for staff welfare is not available for distribution, except upon liquidation of the PRC subsidiary.

### (ii) Capital reserve

The capital reserve of the Group represents the difference between the nominal value of the share/registered capital of the subsidiaries that would have been acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

## 12. RELATED PARTY TRANSACTIONS

During the six months ended 31 December 2000, the Group had the following transactions with related companies:

		For the six months ended	
		31 December	
		2000	1999
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Advertising expenses paid	(i)	2,930	2,930
Purchases of packing materials	(ii)	23,330	17,230
Rental expenses paid	(iii)	<u>670</u>	<u>670</u>

### Notes:

- (i) The advertising expenses paid to 福建德勝廣告有限公司, a related company beneficially owned by Mr. Cai Chong Zhen, a director of the Company, was charged based on the actual costs incurred by 福建德勝廣告有限公司 plus a mark-up of 10%.
- (ii) The directors consider that the purchases of packing materials from 福州德勝印刷有限公司, a related company beneficially owned by Mr. Chen Ching Ken, a director of the Company, were made on similar terms obtained from other suppliers of the Group and were carried out in the ordinary and usual course of business of the Group.
- (iii) The rental expenses were paid to 福建德勝實業有限公司 (the "Landlord"), a related company beneficially owned by Mr. Cai Chong Zhen. The rental was determined between the Landlord and the Group with reference to the prevailing market conditions.

### 13. COMMITMENTS

(a) Operating lease commitments

	<b>31 December</b> <b>2000</b> <b>(Unaudited)</b> <b>HK\$'000</b>	30 June 2000 (Audited) HK\$'000
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring in the second to fifth years, inclusive	<u><b>1,510</b></u>	<u>1,340</u>

(b) Capital commitments

	<b>31 December</b> <b>2000</b> <b>(Unaudited)</b> <b>HK\$'000</b>	30 June 2000 (Audited) HK\$'000
Contracted but not provided for:		
Capital expenditure in respect of acquisition of plant and machinery	<b>8,661</b>	—
Capital expenditure in respect of new production plant under construction	<u><b>8,379</b></u>	<u>—</u>
	<u><b>17,040</b></u>	<u>—</u>